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BusinessWeek

6, 1992

A McGRAW-HILL PUBLICATION

\$2.75

THE AIRLINE MESS

American's
Bob Crandall:
Is he part of
the problem?
Or is he the
solution?

PAGE 50

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HOW A \$25 BILLION
TECHNOLOGICAL GIANT
MANAGES TO REMAIN
VIRTUALLY ANONYMOUS.



It's true we've
spent the last half century pushing the
envelope of technology harder than we've pushed our
name.  Our commitment to R&D (nearly \$3 billion last year
alone) has helped make us the world's second largest computer
maker. And our advances in communications and microelectronics have
always taken priority over publicity.  Today, our capabilities range from
pocket-sized computers to high-speed fiber optics. We make disk and
tape drives for many of America's leading computer manufacturers.
Transistors that made direct broadcast satellite systems possible.
And more of the application-specific ICs for modern computers
and electronics than anyone in the world.  You'll find
our name in over 100 countries. Now we're
making a name for ourselves in
America.


FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

The Subaru SVX

State Troopers
aren't
the only ones
writing
up our new
Sports Car.



"The new SVX is an enthusiast's car—a car with the hardware, versatility and even the looks to make it a star."

-Popular Mechanics, August, '91

"The result is a powertrain that rivals the Lexus V-8 for smoothness and refinement, in a vehicle that offers much more entertainment than the LS400."

-Automobile Magazine, September, '91

"... can't use enough superlatives to describe this car on a curvy back road."

-Motor Trend, March, '92

"On dry pavement, it has no discernable vices, and even in gravel, snow and deluges, can be driven fast and hard with little effort and great confidence."

-Car and Driver, September, '91

"Its high 0.92 g skidpad rating approaches that of the Corvette ZR-1 and Acura NSX. And it slams through the slalom in nearly the same league as the Acura NSX, Nissan 300ZX, and Porsche 944S 2—proving its ability to travel in fast company indeed."

-Motor Trend, September, '91

"The SVX's strong point is lots of usable pull—where you need it, when you need it."

-Autoweek, August, '91

"The virtues of Subaru's new luxury/performance car made it our unanimous choice as this year's purest engineering effort, and worthy recipient of Automotive Industries' 1992 Engineering Award."

-Automotive Industries, December, '91



Subaru. What to drive.



AMERICAN SPREADS ITS WINGS: IT WAS THE FIRST WITH FREQUENT-FLIER PROGRAMS, SUPER SAVER FARES, AND A TWO-TIER WAGE SCALE

Cover Story

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Known by some as 'Fung' or ' Darth Vader,' American's Bob Crandall is the industry's fiercest competitor. And his winner-take-all tactics are driving weaker carriers to despair. Fare wars—and the resulting cost crunch—have taken the airlines into uncharted territory, where some could perish. Crandall says that may be just what the industry needs. Is he a cannibal or a visionary?

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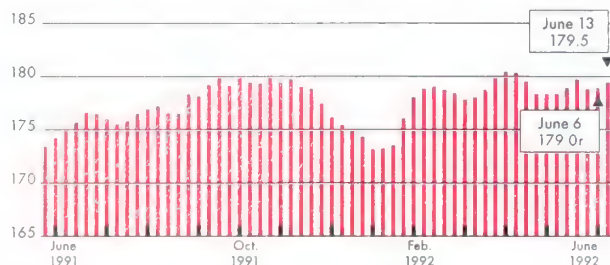
The airline shakeout's silver lining
CEO pay: Disclosure is the best policy
Let's put limits on home-equity loans

BusinessWeek Index

PRODUCTION

Change from last week: 0.3%
Change from last year: 2.1%

1967=100 (four-week moving average)

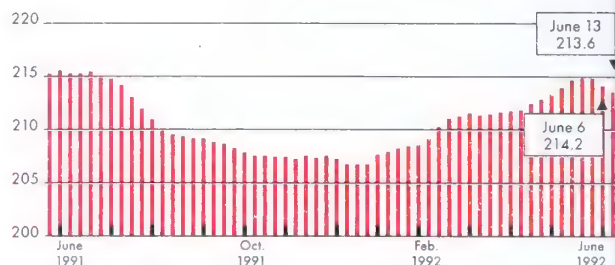


The production index rose slightly during the week ended June 13. On a seasonally adjusted basis, output of autos, coal, and electric power was up sharply, and paperboard and lumber production increased as well. However, steel, truck, and paper production was down, as was rail-freight traffic. Crude-oil refining output was unchanged from the previous week. Before calculation of the four-week moving average, the index increased to 181.9, from 180.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: -0.3%
Change from last year: -0.8%



The leading index declined during the week ended June 13. The money supply continued to contract, stock prices were lower, and bond yields were higher. On the positive side for the economy's future, the growth rate of materials prices was stronger, business failures declined, and the growth of real estate loans improved. Before calculation of the four-week moving average, the index increased to 213.7, from 212.7 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (6/20) thous. of net tons	1,767	1,753#	12.8
AUTOS (6/20) units	133,574	130,613r#	13.6
TRUCKS (6/20) units	85,561	87,232r#	3.7
ELECTRIC POWER (6/20) millions of kilowatt-hours	60,842	58,239#	-3.2
CRUDE-OIL REFINING (6/20) thous. of bbl./day	14,035	13,952#	0.2
COAL (6/13) thous. of net tons	19,315#	18,709	-1.9
PAPERBOARD (6/13) thous. of tons	837.0#	807.7r	7.5
PAPER (6/13) thous. of tons	756.0#	765.0r	1.6
LUMBER (6/13) millions of ft	495.1#	494.9	-9.4
RAIL FREIGHT (6/13) billions of ton-miles	21.1#	20.6	7.7

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (6/24)	127	127	138
GERMAN MARK (6/24)	1.55	1.57	1.81
BRITISH POUND (6/24)	1.88	1.86	1.63
FRENCH FRANC (6/24)	5.23	5.30	6.13
CANADIAN DOLLAR (6/24)	1.20	1.20	1.14
SWISS FRANC (6/24)	1.40	1.42	1.56
MEXICAN PESO (6/24)	3,105	3,105	3,017

Sources: Major New York banks. Currencies expressed in units per U. S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (6/24) \$/troy oz.	343.720	342.000	-6.1
STEEL SCRAP (6/23) #1 heavy, \$/ton	90.00	88.50	1.1
FOODSTUFFS (6/22) index, 1967=100	202.1	200.8	1.5
COPPER (6/20) ¢/lb.	106.4	106.4	2.9
ALUMINUM (6/20) ¢/lb.	59.1	59.1	-2.3
WHEAT (6/20) #2 hard, \$/bu.	3.80	4.16	27.9
COTTON (6/20) strict low middling 1-1/16 in., ¢/lb.	59.77	58.30	-24.8

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (6/19) S&P 500	406.10	409.90	
CORPORATE BOND YIELD, Aaa (6/19)	8.22%	8.26%	
INDUSTRIAL MATERIALS PRICES (6/19)	98.9	98.4	
BUSINESS FAILURES (6/12)	407	435	
REAL ESTATE LOANS (6/10) billions	\$401.9	\$400.8	
MONEY SUPPLY, M2 (6/8) billions	\$3,410.7	\$3,415.5r	
INITIAL CLAIMS, UNEMPLOYMENT (6/6) thous.	407	409r	

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
ORDERS FOR DURABLE GOODS: MFG. (May) billions	\$119.5	\$122.5r	
BUDGET SURPLUS OR DEFICIT (-) (May) millions	-\$46,953	\$14,609	
IMPORTS (Apr.) millions	\$43,355	\$46,668r	
EXPORTS (Apr.) millions	\$36,386	\$37,085r	

Sources: Commerce Dept., Treasury Dept

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (6/8)	\$955.8	\$958.4r	
BANKS' BUSINESS LOANS (6/10)	281.2	284	-1.1
FREE RESERVES (6/10)	320r	1,340r	-3.0
NONFINANCIAL COMMERCIAL PAPER (6/10)	144.9	144.2	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (6/23)	3.70%	3.74%	5.7
PRIME (6/24)	6.50	6.50	8.5
COMMERCIAL PAPER 3-MONTH (6/23)	3.91	3.93	6.1
CERTIFICATES OF DEPOSIT 3-MONTH (6/24)	3.83	3.82	6.0
EURODOLLAR 3-MONTH (6/20)	3.84	3.86	6.0

Sources: Federal Reserve Board, First Boston

THERE WAS A TIME
WHEN BEER HAD
AS MUCH CHARACTER
AS THE
PEOPLE WHO
DRANK IT.



It's that time again. New Miller Reserve. An all-barley draft brewed in the tradition of Frederic Miller's original 1855 lager. Reserve and Reserve Light. Beer as rich in taste as it is in history.



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300, 310, 320, 321, 330, 340

THE AIRBUS FAMILY IS BIGGER THAN YOU THINK.

The Airbus product line offers a profitable solution for airlines. Our 6 Airbus aircraft cover virtually every need of the more than 100 customers we have worldwide. They can profitably fly from 120 to 400 passengers as far as 8,000 miles – covering short, medium and long ranges.

And by the year 2000 – when annual passenger

traffic should exceed 2 billion – Airbus aircraft, such as the A340, will provide welcome nonstops that avoid congested hub airports.

By that time, the world's first integrated family may also have many new members.

That's why, in commercial aviation, we're Number 2 and leading.



MORE THAN 50% OF ARTISTS MAKE LESS THAN \$3000 A YEAR FROM MAKING ART.

[OBVIOUSLY, THEY
DON'T DO IT FOR
THE MONEY]

Driven by passion, aspiring to reveal emotional truth that is both personal and universal, an artist's ambition in making art seldom concerns money. That doesn't mean they don't need it.

On the contrary, even with non-art jobs to pay the rent, incomes for artists flutter around the poverty line more often than not.

Most of us value art. We feel it's important. We rely on artists' imaginations, their insight, their vision to make us think and feel,

laugh and cry. Their work enriches our lives and we depend on them to take personal risks with their art so we can learn.

If we want art, we have to see to it that artists can live to make it. We have to find ways to make sure artists continue to work—not as taxi drivers, receptionists and messengers—but as artists.

The New York Foundation for the Arts is all about finding ways for artists to work without giving up art.



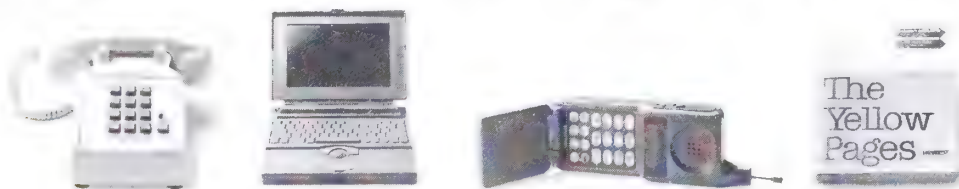
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If There's A Lot On Your Plate



Here's How To



Clear The Table.

At U S WEST, we design all our products and services around the one thing you never seem to have enough of these days. Time. So we offer everything from U S WEST Voice Messaging and Additional Lines to U S WEST Cellular Phones and The Yellow Pages. Each designed to help you get the most out of your time, and your life. Then start clearing the table.

U S WEST

Making the most of your time

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REGARDING SASEA HOLDING AND FLORIO FIORINI

In its issue dated March 13, 1989, BUSINESS WEEK published an article entitled "Puzzle in MovieLand: The case of the mystery moguls."

This article referred, amongst others, to the activities of Mr. Florio Fiorini and the company SASEA Holding of which he is the Managing Director.

In respect of this article, Mr. Florio Fiorini and SASEA Holding insist upon reaffirming the following:

■ The activities of Mr. Florio Fiorini and of SASEA Holding have always been in strict conformity with all laws and provisions governing the said activities.

■ With respect to the "Banco Ambrosiano Affair" Mr. Florio Fiorini's intervention, in his capacity as financial manager of ENI, was limited to the elaboration of a financial scheme that would have allowed taking over of the control of the Banco Ambrosiano by ENI. This plan was not accepted as a consequence of which Mr. Fiorini resigned from his position.

■ Relating to the alleged transfers of \$7 million in favor of members of the Italian Socialist Party, they are totally unfounded; a judicial inquiry opened in Italy in this respect ended with a non-lieu.

Moreover, the alleged money-laundering activities mentioned in that article are also completely unfounded.

SASEA Holding and Florio Fiorini
 Geneva

Editor's note: In the article, BUSINESS WEEK reported allegations of money-laundering with respect to certain foreign private holding companies. In reporting these allegations, we did not intend to refer to SASEA Holding, a publicly traded Swiss company. We regret any misunderstanding that may have resulted from our article.

GIVE WESTINGHOUSE CREDIT SOME CREDIT

Your article "Does everything add up at Westinghouse Credit?" (The Corporation, May 11) distorts our program to overcome difficulties at our financial-

services unit and puts an unfair, negative twist on a tough program that is intended to solve tough problems in a reasonable time period. Westinghouse Financial Services has reduced its total portfolio exposure by \$2.6 billion since the end of 1990, solid progress given today's economy.

You published a former employee's absurd allegations of receiving mysterious death threats and even stated that "The Federal Bureau of Investigation confirms it is investigating the alleged threats..." An official FBI spokesman, however, said that no investigation is being conducted and that he told your reporter that fact.

Furthermore, virtually every statement attributed to Westinghouse is questioned with conjecture, half-truths, and unsupported allegations by unnamed sources, a plaintiff's lawyer in shareholder suits, and the former employee, who twice lost Equal Employment Opportunity Commission actions against the corporation and who has a lawsuit pending based on essentially the same grounds.

Despite our categorical denial, the article reports that Westinghouse discussed the idea of selling the entire company to our licensee, Mitsubishi. Do you really have a more knowledgeable source of information on that point than the active management of Westinghouse? And do you actually believe that the U.S. government would permit the sale to the Japanese of a company with a \$2.3 billion defense business, contracts to operate many of the nation's weapons-production facilities, the world's largest nuclear power customer base, and broadcasting holdings that include five major-market television stations and 17 radio stations?

Our accounting methods are in accordance with generally accepted accounting principles affirmed by independent auditors Price Waterhouse. Yet you question them, based on anonymous experts. You give credence to the critical opinion of one real estate economist on property-valuation techniques that are in common use throughout the industry. And you accept as true the incorrect information from a "former top-level executive" about when our finan-

BUSINESS WEEK
 JULY 6, 1992 ***3273
 ISSN 0007-7135



Published weekly except for one issue combined with the November issue. Published by McGraw-Hill Inc. Founder: James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: (212) 512-2000. Telex: 213596. International Telex: 242266. Cable: McGraw-Hill New York, N.Y. 710 and 1879. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Registration Number 9010. Registered for GST as McGraw-Hill Inc. GST #R123075675. Copyright 1992 by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Patent Office.

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Readers Report

CORRECTIONS & CLARIFICATIONS

In the story "Good morning, Vietnam!" (International Business, June 22), we incorrectly stated that Citibank has an office in Hanoi.

In "A Unix for the masses?" which appeared in some editions of the June 22 issue, we erroneously stated that Sun Microsystems Inc. is expected to support Destiny, a program by Unix Systems Laboratories Inc.

In a table accompanying "Corporate women" (Cover Story, June 8), we misspelled the name of Sally Frame Ksaks, CEO of Ann Taylor Stores Corp.; she received her BA from American University. IBM Vice-President Lucie Fjeldstad received her BA from Santa Clara University.

cial advisers' asset review began.

Perhaps most disturbing, you created unwarranted employee concerns with wholly untrue tales of potential diversitures. Your one source: "talk within the company."

Westinghouse management is working diligently to resolve its difficulties, all of which it has fully reported to investors and employees. As we succeed over time—and it will take time—our shareholders will benefit from enhanced values, and our employees and customers will benefit as well.

Paul E. Le
Chairman & CEO
Westinghouse Electric Co.
Pittsburgh

Editor's note: Our story was based on more than 45 interviews, many with former and current Westinghouse employees, over a six-week period. According to a well-placed source, there were talks with Mitsubishi concerning the possible sale of a major part of Westinghouse. We erred in saying that there was an ongoing FBI investigation.

FOR WOMEN, THE COMPANY IS A MINE FIELD

In "Corporate women" (Cover Story, June 8), you missed a critical description of the situation in which many women find themselves.

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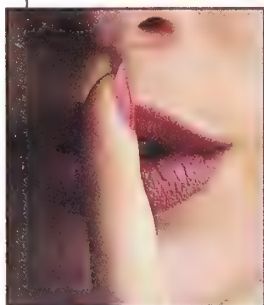


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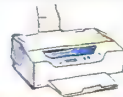


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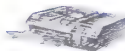
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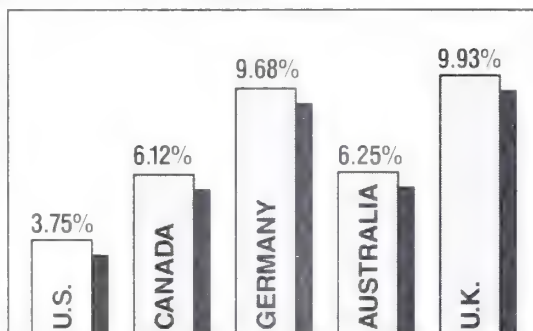
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Readers Report

are common. Getting angry might not be the best way to handle your problem and maintain the relationship you have built. And useful discussions rarely occur over a management-touted chicken salad luncheon. To your horror, you come either a "femi-nazi" or a "stand gal." (I have been called both.)

The article may have described the playing field, but it missed the signs that are called during the game.

Pamela L. Hartman
South Euclid, Ohio

CARVING UP THE MARKET WASN'T ON THE AGENDA

There is absolutely no truth to the speculation expressed in your commentary ("Free Trade: The U.S. shouldn't play purist," Top of the News, June 8) that "proper Japanese share the U.S. car market" was discussed at the May 18 meeting between CEOs of U.S. and Japanese companies.

The meeting was strictly a frank exchange of views on Japanese protection of U.S.-made auto parts. U.S. cars' access to the Japanese market is complicated by chronic automotive trade imbalance between the U.S. and Japan.

Thomas H. Hartman
President & CEO

Motor Vehicle Manufacturers Association
Washington, D.C.

PREVENT CHERNOBYL II —BY SCRAPPING NUCLEAR PLANTS

Your story "Preventing Chernobyl II" (International Business, June 8) was doubly disturbing. The prospect of one or more megacatastrophes at remaining reactors in Eastern Europe and the ex-Soviet republics is enough. But for the industrial West to dump billions into patching up the rickety anachronisms without implementing an ecologically sound energy plan is to prolong as well as possibly magnify the nightmare.

The key to burying these lethal plants is in funding enough conservation, efficiency, and renewables to replace capacity. Such a move would boost our own industries in these crucial growth areas and would advance a world vital to economic, ecological survival.

Harvey Wasserman, Senior Advisor
Greenpeace Atmosphere & Energy Campaign
Bexley, Ohio

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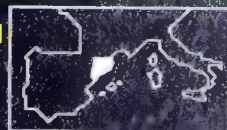
AT FALL



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SEXUAL HARASSMENT: THE AGE OF ANXIETY

Around the turn of the century, women began taking clerical jobs in male-dominated offices, a phenomenon that led vaudevillians to sing reassuringly: "Heaven will protect the working girl." Working women today needn't rely on divine intervention to protect them from wolves in pinstripes. Instead, they and their employers can turn to a bevy of paperbacks on sexual harassment, inspired no doubt by the televised Clarence Thomas-Anita Hill hearings last fall.

Because the words "sexual harassment" are splashed across the covers of five of these books, it's a little hard to tell the players without a scorecard. These books cover pretty much the same ground, anyway. All define sexual harassment, both the quid pro quo ("Sleep with me if you want that raise") and the more common, but only recently defined, "hostile environment" (workplace atmosphere or behavior that a reasonable woman would find offensive).

All of the books give, in varying detail, a legal history of sexual harassment cases and quote the Equal Employment Opportunity Commission procedural guidelines. Each attempts to describe the prevalence of the problem, using virtually the same surveys and polls. Because these are service-oriented books, hefty sections on how to handle a complaint and how to conduct preventative training are included. And since they're geared to busy readers, their texts are usually punctuated with easy-to-scan lists, examples, and lots of stark statements arranged in myth/fact form.

A few contradictions in the advice do surface. *Sexual Harassment on the Job* (Nolo Press, \$14.95) suggests giving accusers a complaint form to fill out, and even includes a sample. But *Sexual Harassment in the Workplace* (Amacom, \$17.95) says such forms "may well have a chilling effect" on complainants' desire to come forward. The books also disagree over whether a victim should confide in co-workers. *Sexual Harassment: Know Your Rights!* (Carroll & Graf,

\$9.95) and *The 9to5 Guide to Combating Sexual Harassment* (Wiley, \$9.95) think she should. (Most complainants are female.) *Sexual Harassment on the Job*, however, warns that talking to colleagues could complicate, if not jeopardize, their jobs. *Sexual Harassment in the Workplace* feels such talk could raise issues of character defamation.

Mainly, though, the difference between these guides is one of tone. The *9to5 Guide* strikes a frankly feminist stance from its introduction, linking sexual harassment to sexual discrimination in general: "It's women's relatively low status in the work world that makes the problem so widespread and so persistent. And if harassment stems from women's inferior position on the job, it



also functions to keep women there."

In contrast to *9to5's* sometimes simplistic indignation, the management-oriented *Sexual Harassment in the Workplace* seems almost reluctant to admit the issue. "Sexual harassment situations are fraught with pitfalls.... The truth can be elusive as claims and counterclaims compete for credibility," warns its very first page. "Everyone involved has rights, and frequently these rights conflict." *Workplace* devotes a chapter to distinguishing between sexual harassment and office romance. Certainly personal history between two parties can be significant in a harassment charge—but an entire chapter?

The easiest read is the concise *Step Forward* (Master Media, \$9.95). Susan L.

Webb, who counsels individuals and companies, enlivens the book with descriptions of her consulting experiences—including one that could be titled "The Workshop from Hell." For three hours, she addressed 90 utility linemen in a cold, austere locker room, no management representative in sight. Just coming off shift, the men were tired, dirty, and hostile, shrugging off the concept of harassment charges as feminist complaints—until one stood up and denounced: "Everybody in here is saying 'If she don't like it she oughta say somethin'.' Well... if I was a woman in this room right now, I wouldn't say so." The situation improved thereafter, and Webb uses the anecdote to illustrate how training sessions should (and shouldn't) be set up.

Sexual Harassment on the Job, by attorneys William Petrocelli and Barbara Kate Repa, is just as readable. The text is wittily punctuated with apt historical quotes from Abigail Adams and 19th century etiquette guides. The tone is thoughtful, dismissing the idea that concern over sexual harassment will

lead to stifled, humorless offices: "The impending pall of the sterile workplace is greatly exaggerated. Awareness, coupled with education about sexual harassment, can go a long way toward increasing equality and decreasing discomfort in the workplace." Of the five, *Sexual Harassment on the Job* is the best reference guide, with a state-by-state breakdown of laws.

The only real miss is *Sexual Harassment: Know Your Rights!*, compiled by lawyers, Martin Esker and David Gallen. It consists almost entirely of reprints of EEOC guides, federal statutes, a chapter from law professor Catherine A. MacKinnon's groundbreaking yet dated *Sexual Harassment in the Workplace*. The introduction by Anita Hill, excerpted from a speech, is touchingly eloquent. But the main question-and-answer format is frustratingly hard to follow.

No reference book—no book at all—can eliminate sexual harassment, the fact that so many are being punished ensures that concern about the problem won't fade. "Its very existence as a public issue will bring about the end," *Step Forward* says. Heaven help that's true.

BY TROY SEGAL

Troy Segal covers social issues for BUSINESS WEEK.

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Contact: Jack Harris
Phone: 560-555-1030 X: 3879 CCI
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Future value	FV	=	-36,000.00
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Begin/End mode	B/E	=	END
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DON'T WORRY SO MUCH ABOUT THE BUDGET DEFICIT

BY ROBERT KUTTNER



Stock arguments for cutting the deficit are simply inoperative. It is not creating inflation or high interest rates, or 'crowding out' private capital by public debt

The proposed constitutional amendment to require a balanced budget has been slain, but the deficit obsession continues to paralyze policy. For a decade, the deficit has upstaged other economic issues, reinforcing public frustration about government's inability to address accumulated problems. It has become a permanent migraine.

Although the constitutional move was narrowly blocked in the House, a new rough beast, "Gramm-Rudman IV," is being hatched by the failed amendment's prime sponsor, Representative Charles W. Stenholm (D-Tex.). Senator Warren Rudman of New Hampshire is retiring, but Gramm-Rudman seems destined to become a generic part of the political lexicon. A cynic might define a Gramm-Rudman bill as ironclad budget-balance legislation that somehow yields ever larger deficits.

ACCOUNTS DECEIVABLE. Conventional wisdom holds that the deficit, now estimated at \$368 billion for fiscal 1992, is the font of most economic evil, and that government's inability to solve it epitomizes political incompetence. Both claims, I want to argue, are wrong.

One startling thing about this deficit is that it has little if any stimulative effect on the economy. Normally, one would expect a deficit in excess of 6% of gross national product to boost purchasing power and engender a mighty recovery, if not some unwelcome inflation besides. However, this deficit has coexisted with a lengthy slump, followed by a lethargic recovery. Neither is the deficit creating inflation, nor high interest rates, nor the "crowding out" of private capital by public debt. So the most convincing staple arguments for cutting the deficit are simply inoperative.

How can this be? How can a deficit this massive lead neither to economic stimulus, nor high interest rates, nor inflation?

Let's begin by looking at the composition of the deficit. One portion of it—about \$70 billion this year—is the savings and loan bailout. Most economists agree that the thrift bailout has no stimulative effect, because savers never thought their money was gone. Having the government replenish the lost funds of the local S&L is simply an accounting entry; it does not cause savers to rush out and spend money they wouldn't have spent anyway. The actual stimulative effect of the real economic activity—the useless condos, office towers, and shopping malls that caused the S&L losses in the mid-1980s—was dissipated years ago. So adjusting for the S&L bailout whittles down the effective deficit to about \$308 billion.

The second main portion of the deficit reflects the impact of the recession itself. In any recession, economic activity contracts, tax

collections dwindle, and relief payouts increase. The Congressional Joint Economic Committee calculates that \$100 billion to \$110 billion of the deficit is simply the result of recession. That leaves about \$200 billion—almost exactly the annual interest on the accumulated public debt. Interest on the debt flows out of the Treasury into the pockets of investors who hold Treasury securities. The majority of that interest income either sits in bank accounts or is invested in other securities. That also helps explain why there isn't much "crowding out" mostly, the interest paid on the public debt cycles right back into private capital markets.

Of course, this is not to say that the deficit isn't a national problem. Interest payments on the accumulated debt represent \$200 billion less the government has to spend on other public needs. And a \$368 billion deficit in 1992 means another \$368 billion on which interest must be paid. The point is rather that a panicky solution aimed at abruptly slashing the deficit would push the economy into free fall. The deficit does need to be reduced—partially and gradually—to the point where the national debt stops increasing relative to the real economy, or gently declining. But that means taking several years to cut the deficit to about \$200 billion, not to zero.

SWEET SURPRISE. The second point is that the Federal Reserve needs to keep reducing interest rates. As the sick economy headed into the 1992 election year, Fed Chairman Alan Greenspan found to his (and George Bush's) delight that cheaper money did not trigger inflation. Every one-point cut in the rate the Treasury must pay on its bonds cuts government interest costs. Hence it cuts the deficit—by some \$16 billion this year and \$24 billion next year. It also cuts borrowing costs for industry, homeowners, and for consumers.

So, the proper treatment for the deficit is moderate and gradual reduction, coupled with lower interest rates—and not just in an election year. And we still need to pay attention to those other serious economic problems that the deficit keeps crowding off the agenda. They include everything from badly managed industries to hostile corporate takeovers, an unbalanced trading system, inadequately educated and trained workers, decaying public infrastructure, and collapsing health insurance. Some of these maladies require public remediation. If we don't address them directly, a lower deficit won't help. And if we respond to the deficit with fiscal overkill, there will be neither the public funds to spend on our real problems nor a private economy strong enough to generate the needed jobs, investments, and tax revenues.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ FAIRE



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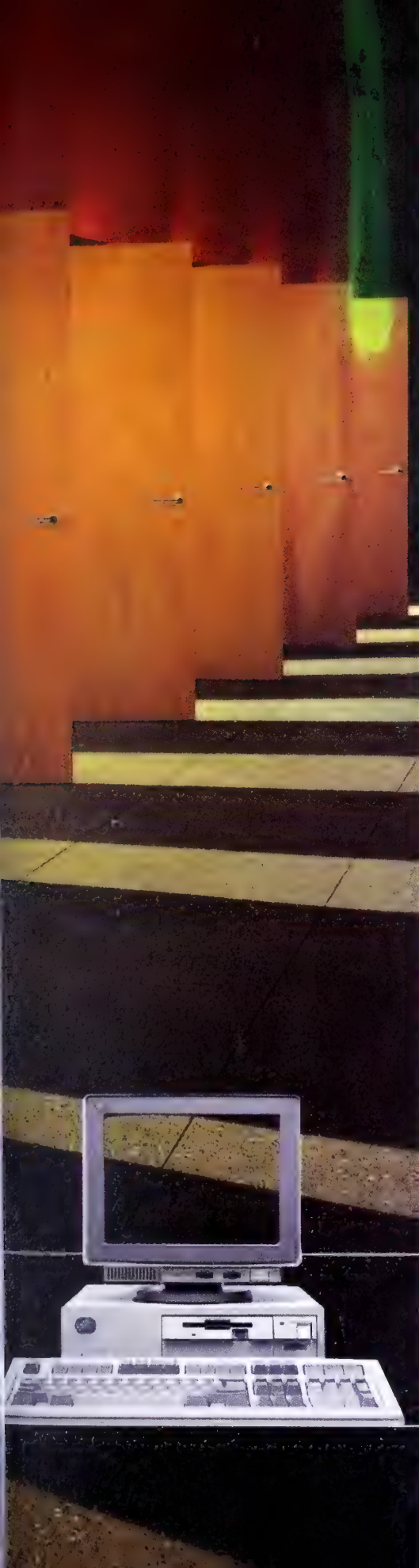
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Economic Trends

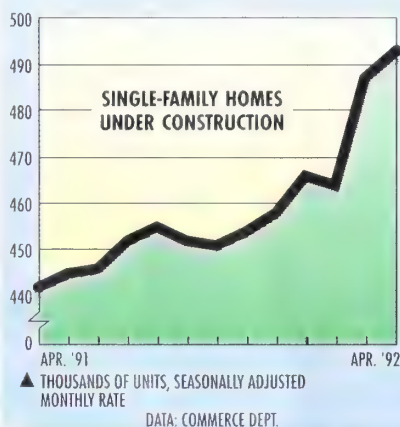
BY GENE KORETZ

IN HOUSING STARTS, FORGET APRIL—WATCH THE REBOUND

When housing starts plunged 17% in April, most analysts were stunned, and alarm bells started ringing at the Federal Reserve. To Cassandras who have tended to view the economic recovery as shaky, the specter of a collapsing housing sector only confirmed their warnings that a triple dip in economic activity was a growing possibility.

Fortunately, the 11% May rebound in starts—the largest in 15 months—has weakened the force of such dire predictions. “The robust showing of starts in May,” says economist David W. Berson of the Federal National Mortgage Assn.,

THE ACTION PICKS UP IN HOUSING



“indicates that residential construction will continue to contribute to economic growth through the year.”

Over the near term, that contribution should be considerable, despite recent volatility in the monthly numbers. Economic activity depends on the number of units being built, not simply started, and because this includes construction begun as much as six months earlier, the effect of the sharp rebound in starts earlier this year will continue to boost economic activity through the summer. Indeed, the number of single-family homes under construction has been rising sharply in recent months (chart).

According to Berson's projections, residential construction should add about 0.6% to the economy's growth rate in the second quarter and 0.4% in the third. And that doesn't count the secondary effects, as the housing upturn sparks sales of appliances and furniture.

The outlook could brighten. A number

of elements supporting housing construction seem to be falling into place. Mortgage rates have been trending down since mid-March and are now below 8.6% for a 30-year fixed rate, a five-month low. Builders report a modest easing in credit conditions in many areas of the country. Housing affordability is at its strongest level since the mid-1970s, and mortgage applications, which fell sharply in April, have started to turn up again in recent weeks.

The biggest clouds on the horizon are a recent weakening of new-home sales and a softening of builder optimism. According to the National Association of Home Builders' June survey, some 28% of builders of single-family homes described their current sales pace as poor, and 43% said that traffic of prospective home buyers was “low to very low.”

Still, only 15% of builders in June expected sales of single-family houses to be poor over the next six months, compared with 30% anticipating good sales. NAHB economist David Seiders predicts that “a lot of pent-up demand will surface once income and job growth picks up.” To which Fannie Mae's Berson adds: “Any surprises in the housing sector are likely to be on the up side.”

WILL THE FORMER SOVIET UNION BECOME OPEC'S NEMESIS?

Within a few years' time, muses Adam E. Sieminski, energy analyst of County NatWest Securities Corp.'s Washington Analysis group, “it may be the former Soviet Union rather than Saudi Arabia that will be calling the tune on oil prices.”

Sieminski notes that collapsing production in the Commonwealth of Independent States has played directly into OPEC's hands in the past year. In the first quarter, for example, output in the former U.S.S.R. was down about 1.3 million barrels a day from its year-earlier level, and exports were off 600,000 barrels. By contrast, OPEC production was up around 1 million barrels. “Without declining output in the former U.S.S.R.,” says Sieminski, “oil prices would be 10% to 15% lower than they are today, or OPEC would be pumping less oil.”

The catch is that OPEC can't depend on this much longer. With demand in the former U.S.S.R. also falling, exports are leveling off. And joint ventures between Western oil companies and former Soviet republics are being announced daily.

“The former U.S.S.R. remains the leading producer of oil,” notes Sieminski, “and nobody really knows its potential

productive capacity.” Given the already need for foreign exchange and the possible impact of Western knowhow on lagging output, the world oil market could experience considerable downward price pressures in coming years.

THERE'S MORE GIVING, BUT NOT FOR HUMAN SERVICES

The recessionary economic climate of last year didn't dampen Americans' philanthropic instincts. According to the American Association of Fund-Raising Councils, donations to nonprofit organizations jumped by 6.21%, to \$124.77 billion. That's the biggest percent of gross domestic product (2.2%) since the AAFRC began keeping tabs on total giving in 1959. What's more, giving by individuals hit 2.13% of personal income, its highest level in 21 years.

Although most causes racked gains, the report's biggest surprise was a sharp decline in giving to human service groups, such as social and family service agencies, shelters, and food distribution programs, whose needs jump during recessions. Whereas such giving rose appreciably during the 1982 downturn and continued to grow during the expansion, it fell in 1990 and then dropped again in 1991—by \$1.2 billion, 10.2% in current dollars and 14.3% in real terms. The AAFRC notes that the drop was doubly painful because government support for private human service programs also declined last year.

MOST AMERICANS STILL SEE A BRIGHTER, RICHER FUTURE

The American dream is alive and well despite recent rough economic weather, reports the Conference Board. Its latest survey of 5,000 households across the nation reveals that nearly 65% of respondents say their present standard of living is higher than those of their parents during the last years they were living at home, over two-thirds think their opportunities are greater, and 55% think their children will enjoy higher living standards than themselves.

Even respondents under 35 were upbeat. About 75% report living standards higher than or similar to those of their parents, and 60% of men and 73% of women think their opportunities are greater. Some 53% of those under 35 expect their kids to do even better. Only 15% worry that they will fare worse.

DON'T EXPECT THIS RECOVERY TO GET MUCH FOREIGN AID

In recent years, foreign trade has been kind to the U.S. economy. From 1986 to 1991, a steady narrowing of the trade deficit generously contributed 30% of a growth in real gross domestic product. And in late 1990 and early 1991, when the economy was tumbling, an improving trade balance broke the fall.

Well, no more Mr. Nice Guy. In 1992, slower export growth and an acceleration in the pace of imports will reverse some of the trade deficit's improvement and generally make life tougher for an economy that is struggling to recover.

Such contrary behavior is already becoming evident. The gap between imports and exports widened to \$7 billion in April, after averaging \$4.9 billion a month during the first quarter. The April deficit was the largest in 1½ years. It suggests that deterioration in net exports during the second quarter will result in yet another subpar performance for real GDP, perhaps no better than the first quarter's growth of 2.4%.

THE SECOND QUARTER BACKLASH The drag from foreign trade hits the economy at a bad time. Consumers paused to catch their breath in the second quarter after their spending spree in the first, when outlays surged at an unsustainably fast 5.4% annual rate. Employment growth has not picked up enough to generate anywhere near the income growth necessary to maintain that sizzling pace.

In fact, job-market improvement also appears to be taking a break. After weeks of steady declines, the four-week average of initial unemployment claims has been hovering just above the 400,000-per-week annual rate since late April. Claims will have to pierce that barrier before solid and sustainable job growth is assured. The numbers say that layoffs have stopped

that new jobs are opening up at a snail's pace. Also, the big swing in inventory growth, which was expected to give second-quarter GDP a boost, may not be as large as first anticipated. It's becoming apparent that a lot of that first-quarter rush in consumer demand passed U.S. manufacturers and instead went to imports (chart). As a result, the need for factories to rebuild inventories will be diminished.

The import surge, along with slower growth in both consumer spending and exports in the second quarter,

explains the weak performance of factory orders in May. Makers of durable goods saw their new bookings drop 2.4% in May. The weakness was broad, although a sharp 27.7% plunge in orders from the military accounted for nearly all of the overall decline.

It's important to remember, though, that durable-goods orders are extremely volatile. The May dip followed gains of close to 2% in both March and April. The three-month average of bookings, a better indication of the trend, continued to rise in May.

The problem for manufacturers is that new orders aren't rising fast enough to stop the slide in the backlog of unfilled orders. It fell 0.6% in May, the ninth decline in a row (chart), to the lowest level in three years. Right now, factories are meeting new demand by working longer hours. Manufacturers won't commit themselves to the extra cost of beefing up payrolls until they see their order backlog growing.

All this doesn't mean the recovery is petering out again, as it did last year. Upturns in autos and housing, accompanied by their broad impacts on related industries, are still leading the way. Demand for U.S.-made cars, for example, continued to look firmer in mid-June, when sales stood at an annual rate of 6.4 million. The sluggishness in new orders, however—and demand generally—does drive home the point that the upturn will undoubtedly be the most lethargic in the postwar era.

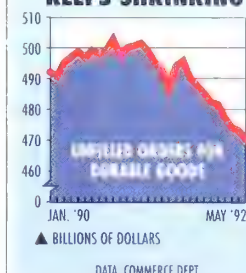
MEXICO IS SPICING UP EXPORTS

The prospect of a widening trade deficit only makes matters worse. To be sure, exports are still a key source of strength for U.S. manufacturers. In the first quarter, foreign demand accounted for a record 21.6% of industrial output, up from less than 14% in early 1987. The pace of exports, however, is much more subdued than it was in the late 1980s, and it's currently too slow to offset manufacturers' losses to imports.

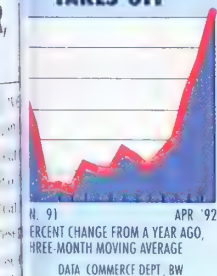
In April, exports slipped for the fourth time in five months, dropping by 1.9%, to \$36.4 billion. U.S. producers posted big declines in aircraft, telecommunications equipment, and tobacco products. For the first four months of 1992, exports are up just 6.6% from a year ago. That's slower than the 7.1% pace of early 1991.

Slowdowns in many industrialized economies have hurt demand for U.S. goods in Japan and Europe. In-

THE ORDER BACKLOG KEEPS SHRINKING



IMPORT GROWTH TAKES OFF



Business Outlook

deed, growth in exports has come solely from countries outside the Group of Seven industrialized nations. Total U.S. shipments to the other G-7 nations—Britain, Canada, France, Germany, Italy, and Japan—have hardly budged over the past two years. But excluding these developed countries, demand for U.S. goods has been increasing at a steady pace (chart).

Most notably, trade with Latin America continues to strengthen. Exports to Brazil have risen by 7.5% so far this year, while shipments to Venezuela are up 26.1%. And in Mexico, where economic growth is healthy, demand for U.S. goods has jumped by 34.9%. Indeed, sometime this year Mexico could well pass slumping Japan as our No. 2 export buyer, after Canada.

IMPORTS ARE ON THE REBOUND

The increase in demand from developing countries will continue to lift output of U.S. manufacturers who export. The problem, however, is that as the economy recovers, America's appetite for foreign goods is also rebounding. And that cuts into production of U.S. goods that compete head-to-head with imports.

That was evident in April, as imports rose for the second consecutive month. They advanced by 1.6%, to \$43.4 billion, and now stand 9.1% above their level of a year ago. Increased imports of petroleum accounted for about half of the April gain, but there was also an influx of manufactured goods such as cars and apparel. The inroads made by foreign producers into

U.S. markets are one reason why the current rebound in the factory sector remains lackluster.

Consumers have once again become large buyers of foreign goods. In the year ended in April, imports of

consumer goods, excluding cars and food, soared by 1%. At the same time, retail activity—the sum of store sales and inventory growth—was up only 4.1%. These divergent trends indicate that consumers have accelerated their spending on imports much faster than they have increased their buying of goods overall.

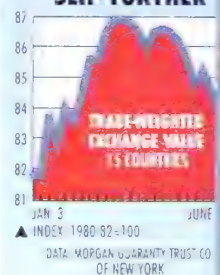
But it isn't just consumers. U.S. purchases of foreign-made capital goods are also picking up, even as American exports of similar goods are hurting. Such imports rose by 6.9% over the past year, while capital-goods exports—once a powerhouse in the trade sector—flat. Some of the increase in imports reflects the growing presence of foreign-owned transplant factories, the rest reflects the penetration of imports.

The recent slippage in the U.S. dollar on foreign exchange markets could help to reverse both the slowdown in exports and the pickup in imports. The dollar's exchange rate, as measured against the currencies of our 15 major industrialized trading partners, has fallen about 4% from its recent peak in mid-March (chart). The slow recovery of the American economy, plus our lower short-term interest rates relative to foreign rates, will keep downward pressure on the dollar.

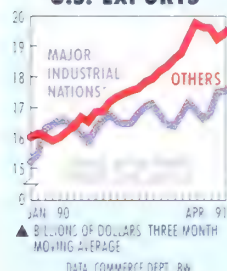
The dollar's slide, though, hasn't been steep or long enough to provide any great lift for exports. In order for foreign sales to show more pep, other economies must have to strengthen by a lot more.

That's not likely to happen anytime soon. For rapid growth in the newly industrializing countries is helping. But until Japan and Europe can shore up their economies and generate faster growth for U.S. export, foreign trade will continue to be yet another thorn in the economy's side during 1992.

THE DOLLAR MAY SLIP FURTHER



WHO'S BUYING U.S. EXPORTS



THE WEEK AHEAD

NEW SINGLE-FAMILY HOME SALES

Monday, June 29, 10 a.m.

New houses probably sold at an annual rate of 550,000 in May, forecast the economists surveyed by MMS International, a division of McGraw-Hill Inc. The May projection is about 4% above the 530,000 selling rate in April and is suggested by the 9.8% gain in single-family housing starts. Housing activity is being buoyed by a drop in mortgage rates.

LEADING INDICATORS

Tuesday, June 30, 8:30 a.m.

The government's composite index of leading indicators likely rose by a strong 0.6% in May, after advancing by 0.4% in both March and April. The gain is sug-

gested by lower unemployment claims, a longer factory workweek, and higher stock prices in May.

NAPM SURVEY

Wednesday, July 1, 10 a.m.

The National Association of Purchasing Management's index of industrial activity probably changed very little in June, from its 56.3% reading in May, says the MMS report. However, the May index was five percentage points above the April reading.

CONSTRUCTION SPENDING

Wednesday, July 1, 10 a.m.

Outlays for building projects likely increased by 0.3% in May, reversing the 0.3% drop in April.

EMPLOYMENT

Thursday, July 2, 8:30 a.m.

The MMS economists expect that farm payrolls increased by a head 100,000 jobs in June, after a 68,000 drop in May. Because of the increased hiring, the MMS consensus calls for the unemployment rate to edge down to 7.4% in June, from 7.5% in May.

FACTORY INVENTORIES

Thursday, July 2, 10 a.m.

Manufacturers probably increased inventories by about 0.2% in May. It would be the first rise since September 1991. The increase is suggested by a large 0.7% gain in factory output in May and the weakness in shipments.

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JULY 6, 1992

CLINTONOMICS, ROUND TWO

PACKED WITH COMPROMISES, HIS PLAN REVEALS A LOT ABOUT THE CANDIDATE

Trailing badly in the Presidential sweepstakes, Arkansas Governor Bill Clinton had to do something to jump-start his sputtering campaign. So the man with a thousand plans has put together the big enchilada: a comprehensive domestic-policy package that lays out in considerable detail how a President Clinton would govern America.

The package, detailed at a June 22 Houston meeting of mayors, finally gets Clinton back in the news—a critical first step for a candidate who is fast becoming



ing the Third Man of Presidential politics. More important, it speaks volumes about Clinton's economic philosophy and his consensus-building style of governing.

The central theme of the package is investment, both in human capital and in equipment. Clinton says he would spend billions to improve the nation's infrastructure and would provide tax incentives for private investment. He'd cut the deficit modestly, mostly through defense reductions, management reforms, and tax hikes on the wealthy. And he would guarantee

basic health coverage to all Americans (table). It is, Clinton told BUSINESS WEEK (page 28), "the biggest investment program anybody has ever offered while running for President."

NO MAKE-WORK. Maybe, maybe not. Part of Clinton's program is traditional Democratic writ. The candidate would spend billions on public works, education, and job training. Education alone would get \$60 billion over four years. Says Clinton adviser Gene Sperling: "I deeply believe that you cannot create growth without public and private investment. This is not about make-work, but you've got to have government

CLINTON'S NEW PLAN

INFRASTRUCTURE

Improve roads and bridges. Build high-speed rail lines and a nationwide communications network. Funding would come from a Rebuild America Fund, financed with \$20 billion annually in federal money, as well as state and local contributions

INVESTMENT

Institute a permanent R&D credit, a \$10 billion-a-year incremental investment tax credit, and a 50% cut in capital-gains taxes for small business investments held long-term

TRADE

Support trade agreement with Mexico, if it protects worker rights and the environment. Crack down on transfer-pricing abuses—when foreign companies artificially boost costs of U.S. subsidiaries to lower their taxable profits

TAXES

Tax cuts for families earning less than \$100,000, add a new 36% bracket for those earning more than \$175,000. Raise the alternative minimum tax. Surtax on millionaires

HEALTH CARE

Provide universal health insurance. Drug companies that don't slow price increases would lose federal tax breaks. Federal limits on total cost of health care

SOCIAL POLICY

Offer two years of aid to families with children, then require parents to work. Require employers to provide training, family leave

DATA: CLINTON FOR PRESIDENT COMMITTEE, BW

vestment in people and infrastructure." But Clinton also counts on private investment to boost productivity and growth. One of the package's major components is a \$10 billion-a-year incremental investment tax credit, targeted "productive" capital spending. "We're not going to create prosperity," says Robert Shapiro, a top Clinton economic adviser. "We're going to give people the opportunity to create it for themselves." The Arkansas governor has backed away from some Democratic icons, including tax cuts for Middle America. In the primaries, he used the promise of a middle-class tax cut to bash rival Paul Tsongas. But with the economy moving from recession to recovery, Clinton has shifted the focus to long-term growth, rather than on ways to slice a shrinking pie. He still has a tax cut for the middle class, but it's half the size of the original plan.

Clinton knows that to win the White House, he must present a bold contrast to both George Bush and independent Ross Perot. But how? Propose balancing the budget? That means tax hikes and spending reductions that are sure to enrage millions. Ignore the deficit to cut taxes or spend more? That invites

ridicule in a year when 77% of voters say they favor a balanced-budget constitutional amendment.

What he has come up with is a split-the-difference policy that tells a lot about how Bill Clinton would run the White House. Clinton is a compromiser, a guy always looking for ways to satisfy warring constituencies. So, with his plan, Clinton has aimed at the middle ground. Deficit-fighting, for instance, has clearly lost out to investment as the key element of Clinton's domestic policy: His plan would reduce the deficit to \$140 billion by 1996, only slightly less than the \$180 billion or so that is projected under current law (chart).

To many, Clinton's compromises mean the electoral package comes up short. "He's pointed in the right direction, but he's not going anywhere," says William A. Niskanen Jr., former top economic adviser to President Reagan. The plan "is consistent with the perception

that Clinton is a status-quo candidate."

Clinton hasn't exactly set the business world on fire, either. Some executives say they like Clinton's ideas about investment incentives and infrastructure spending. But others object to his plans for income tax hikes and his willingness to shift responsibility to business for health care and other social needs. Says Stanley C. Golder, general partner of the Chicago venture firm Golder, Thoma & Cressey: "It's spend more and give more and raise more taxes. We need something more imaginative."

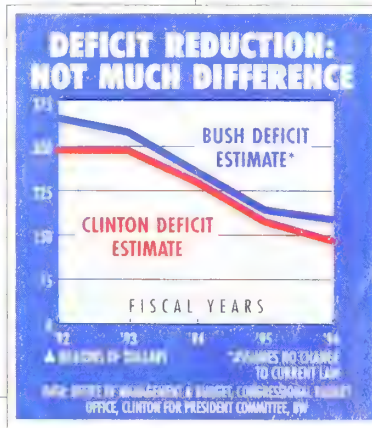
'IT'S A SHIFT.' And Clinton does plan to spend: He wants to put an additional \$200 billion over four years into boosting public and private investment. About \$20 billion would finance new roads, communications networks, and other infrastructure projects. Washington's money would be leveraged with state and local contributions, as well as private investment. That sounds fine to Democratic liberals, many of whom were initially skeptical of Clinton. Jeff Faux, president of the labor-backed Economic Policy Institute, says: "He is putting investment in the key position of his economic program. It's a shift in the way he views economic problems."

Clinton also promises to cut capital-gains rates by 50% for long-term investment in small business. And he would make the research-and-development tax credit permanent. In addition, he would create a civilian R&D agency to encourage critical technologies. The plan, particularly the \$10 billion investment credit, gets high marks from many economists. "It's not going to create miracles for you," says William C. Melton, chief economist at IDS Financial Services Inc. "But it's your best bet for improving productivity."

There's social policy in the package, too. The Arkansas governor would attempt to spur bank loans to inner cities to encourage business development. And he would try to wean families off welfare. Ronald Homer, CEO of the Boston Bank of Commerce, would be willing to pay higher taxes to fund such programs.

He says: "If the social issues of our cities are addressed, I'll make more money than an extra 4% coming out of my paycheck."

One of the main reasons Clinton is having trouble selling his package to business is his image: To many, he's still "slick Willie," who will say anything to get elected. Robert C. Aul, who owns a



medical-services firm in Oakmont, Pa., calls the plan "an act of desperation by a candidate who is doing what candidates do all too often—making promises he can't keep."

Clinton has won the backing of some executives. John H. Bryan, chairman of Sara Lee Corp., says it is "rather balanced. It seems a very supportable plan." And Ely R. Callaway Jr., chair-

man of Callaway Golf Co., says he's impressed with Clinton's infrastructure proposals. "Hell, the whole nation is falling apart," he says. "Of course we ought to spend the money there. And we've got to have jobs."

The more timely question is whether Clinton's blueprint will appeal to voters. It has attracted attention, making it a political success of sorts. And Clinton's

timing may have given him a tad edge over his challengers, who have issued programs. Now, Clinton can't afford a befuddled Bush and an evasive Clinton for their own specifics. But there's no guarantee that this year's restive voters will be stirred by detailed policy prescriptions, especially when they're only a relatively modest change. "People seem to be searching for something

'THEY'LL VOTE FOR ME BECAUSE THEY WANT A LEADER, NOT A BOSS'

Give Bill Clinton credit for trying. Just weeks before the Democratic Convention, the Arkansas Governor has slimmed down his chunky profile, revamped his economic plan, and picked a fight with Jesse Jackson.

Clinton has even dabbled with some Perot-style populism. So far, none of it has lifted the candidate's standings in the polls. But in a June 23 interview with BUSINESS WEEK's Washington Bureau Chief Lee Walczak and Economics Correspondent Howard Gleckman, Clinton showed he's still an optimist.



Q Why are you revising your economic strategy now and backing away from the goal of a balanced budget by 1996?

A When I began the campaign, the projected deficit was \$250 billion. Now, it's up to \$400 billion. I've watched the economy pick up very slowly, if at all. I hadn't cut government as much as I wanted to, and I needed to put teeth into that idea.

Q Critics of your middle-class tax cut always felt it was low on tax relief and high on symbolism. With the recession over, why retain this measure?

A The main portion of the middle-class tax cut for me in its present form is the children's tax credit. The idea is to provide a family allowance. We're still getting a disproportionate amount [of taxes] from the middle class. This is an attempt to put some fairness back in the system.

Q You call yourself a probusiness governor, but your plan seeks \$150 billion in new taxes from corporations and upper-income individuals. And it requires business participation in a costly health plan. What's probusiness?

A We're going to spend a lot of money to give business a better-educated and

trained work force. That is worth a lot. No. 2, if the cost-control program in my plan works as I believe it will, we'll get health care costs more in line with inflation. We'll free [that capital] up to go back in the private sector. The invest-

ment tax credit is very good for business. For all those reasons, this is very much a probusiness plan.

Q Some economists feel that your economic plan consists mainly of well-intentioned tinkering. Your response?



"THIS IS MY A PROBUSINESS PLAN": CLINTON

A I don't think you can ignore the deficit, and I think cutting it by more than 50% in four years is a real step in the right direction. For people who say this is tinkering, I say this is the biggest investment program anybody's ever offered while running for President. It's more than Perot and Bush have offered—which is nothing so far.

Q You characterize as "investment" your plan to spend \$50 billion a year to "put America back to work." The Federal Reserve is likely to call it by its

old-fashioned name, "spending." Will that do to interest rates?

A There's spending, and there's saving. We're not spending this money on consumption, we're spending it on investment in ways that will create jobs and economic growth. [the Fed] shouldn't raise interest rates in the face of it. There is no doubt I believe that this will spark a recovery from inflation.

Q You want to slash 100,000 federal employees by attrition. Why not scrap entire outmoded agencies?

A Federal agencies need the kind of restructuring that major corporations have undergone, which means cutting middle management, pushing

down to front-line workers, and using computers for data processing instead of paper. The best companies do it that way, not by layoffs.

Q When you headed the Democratic Leadership Council, you emphasized the need to control the cost of government programs. Why is there no emphasis on social spending in your plan?

A I decided that the real saving was in health care cost control and the reduction of poverty.

mentally new," says Gail D. Fosler, chief economist at the Conference Board. "The contest will be over who can really evoke that sentiment." Can Clinton do that with this plan? Probably not. But for a major party candidate who has barely 25% of the vote, it's at least a step in the right direction. By Howard Gleckman in Washington, Eric Schine in Los Angeles, Russell Mitchell in San Francisco, Lois Therrien in Chicago, and bureau reports

propose to raise \$45 billion by taxing subsidiaries of foreign corporations. Won't other countries merely retaliate against U.S. multinationals?

the U.S., foreign corporations' income has gone up dramatically in the 1980s, and taxes have gone down. All I want to do is to even it up a little bit... I'm not worried about retaliation. We're going to hit them harder than they are on us.

Perot has been far less specific than you. Yet he seems to have struck a chord by vowing to mount an all-out attack on economic stagnation, government corruption, and political corruption. Can your own position papers compete with his?

I've tried to learn to describe what I've done in those kind of terms. My plan is an attack on political corruption and on economic stagnation. The difference is, if you ask me how I'm going to attack those things, I've got an answer. He is a very sound-bite politician. And he is a salesman—that is how he made a lot of money, selling to the government. I'm at a disadvantage because I'm an official. That turned out to be a disadvantage [with] people who are fed up with politicians as usual. Perot says, "I'm a businessman, I have nothing to do with this," isn't so—he's been a Washington player for 20 years.

You've tried radio talk shows and TV. You've tried satellite town hall meetings, infomercials, and 800 numbers. You're still in third place during the Democratic Convention, put yourself in the shoes of a typical delegate. Would you support Clinton nomination?

...That's like saying, should [GOP] members have dumped George Bush in the polls showed he was 17 points behind. He had a sense of the underlying mood of the election, and he won by 17 points. Two-thirds of the American people know we need a change in leadership. In the end, they'll vote for me because I'm not a leader, not a boss—somebody who can plan and a proven record. I'm on the edge of history.

OPINION RESEARCH



"We don't have any opinions. We're just down here for a vacation."

HOW GOOD ARE POLLS? WE REFUSE TO ANSWER

Their usefulness is under attack as consumers and voters clam up

Ross Perot's quirky run for the White House is turning into a full-fledged gallop. That's if you believe the polls: The Texas billionaire leads George Bush 36% to 31% in a recent survey taken by Times Mirror Co. Bill Clinton is in third place with 27%.

But wait. A recent *New York Times*/CBS News poll had Bush leading Perot 32% to 30%, while an ABC News survey says Perot is ahead of Bush by 36% to 30%. Maybe, as ABC News polling director Jeff Alderman puts it, "no one really has any idea who's ahead."

KEEPING MUM. Why all the confusion? Voter opinions are more fickle than usual, says Andrew Kohut, director of surveys for Times Mirror. In such a climate, pollsters can get different results merely by shuffling their questions. And it's not just political polls: Marketers also now are doubting their research.

Campaign '92 has undercut many cherished assumptions, one of which is the reliability of public opinion research. The polls have been so muddy and contradictory that some handicappers may feel more comfortable using the *Daily Racing Form* than the Gallup Poll. Nobody has expected polls to be infallible since they predicted Dewey would de-

feat Truman. But several trends are conspiring to place voter surveys under a fresh cloud of suspicion.

For starters, the validity of polls is being undermined by the rising number of voters who refuse to participate in them. "The refusal rate is increasing with every election because people have been inundated with polls," says Frank I. Luntz, research director for Perot. Pollsters won't cite a figure, but many agree that refusal rates are only slightly less than for consumer-product surveys. Walker Research Inc., an Indianapolis firm, estimates that 36% of those asked to respond declined to answer consumer-product phone surveys in 1990—a 12-percentage-point increase over 1986.

BEAN COUNT. Worse, those who duck surveys tend to be "market makers"—industry jargon for the younger, more affluent consumers who are most likely to try new products. Since companies often decide whether to launch products based on their reactions, missing them adds risk to an already chancy process.

One who passed on political polls is Janice Wayne, an actress in Rye, N.H. Wayne says that she received 10 calls from pollsters in the three weeks before the New Hampshire primary, and "it got

to the point where I felt rebellious."

Even when voters do cooperate, pollsters are taking their answers with a grain of salt. Some argue that fierce antipolitical sentiment is prompting many voters to say they support Perot when they'll probably vote for Bush or Clinton in November. "People are tired of cornflakes," says Charles Black, a senior adviser to the Bush-Quayle cam-

paign. "Naturally, they jump up and down and say they want Perot."

Some pollsters remain undaunted. Manuel Corella, who runs the Texas Frijole Poll out of his Mexican restaurant in Galveston, Tex., says he has called every Presidential race correctly since 1976. Corella asks each patron to toss a pinto bean into a wine carafe bearing the name of his or her preferred candidate.

At last count, Perot had 60% of the beans, with Bush at 25% and Clinton 14%. But the bean poll doesn't allow for undecided voters. "Some of the customers want to throw it into an undecided carafe," Corella explains, "but we allow them to make a choice." If only every pollster could be so pushy.

By Mark Landler in New York, Douglas Harbrecht in Washington

THE GLOBAL ECONOMY

THE WORLD'S WOES WILL HAVE TO WAIT

Munich summit leaders will be preoccupied with domestic troubles

For 18 years, economic summits have created a flurry of early-summer diplomacy. Sherpas jet around the world to hammer out agreements for their presidents and prime ministers to announce with great fanfare. This year is no different, except that a key element is missing: the deals. When leaders of seven major industrial nations gather in Munich on July 6-8, they'll find no significant pacts addressing the world's economic and strategic problems.

The problems are there, of course. The world economy is barely growing. Russia and the other republics of the former Soviet Union need money fast. The bloody splintering of Yugoslavia mocks Europe's post-cold-war security arrangements. And global trade talks are bogged down. But although the Group of Seven nations dominate the world as never before, their leaders are preoccupied by political woes at home. Perhaps the best they can hope for is a splashy deal on Russian aid and an agreement to keep the feuds quiet.

A do-little meeting will be especially painful for George Bush, who wants to remind voters that foreign-policy savvy can bring home domestic bacon. Unfortunately, last year's hero of Desert Storm has been replaced by the just-say-no Bush of the Earth Summit in Rio de Janeiro. "At this G-7, Bush will be less a leader and more a loner," says François Heisbourg, director of London's International Institute for Strategic Studies.

BITTER PILL. The fragmentation is clearest on the central issue of global growth. For months, Treasury Secretary Nicholas F. Brady has hectored German and Japanese leaders to boost their anemic economies (chart). Brady even lined up a novel summit of Latin American finance ministers on June 24-25 to drive home his point: The G-7 has to grow faster to help the world's poor nations.



KOHL HAS HIS HANDS FULL TRYING TO GET EASTERN GERMANY'S OUTPUT UP TO SPEED

But neither Germany nor Japan is likely to swallow Brady's prescriptions. The hard-line Bundesbank is keeping short-term rates high—around 9.6%—to offset the inflationary effect of subsidies to the former East Germany. German Chancellor Helmut Kohl has pledged cuts in government spending, but they seem a long way off.

Japanese Prime Minister Kiichi Miyazawa will be more agreeable—at least on the surface. Scheduled to arrive in Washington on June 30 for a pre-summit visit, Miyazawa will promise to spend some of Japan's budget surplus to boost its economy and trim its growing trade surplus. But the pledge will more than likely be vague, and the powerful Finance Ministry will fight to cut the package to less than half the \$62 billion requested by Washington.

Growth is a matter

for mere bickering, though, compared with the likelihood of an ugly row over trade. Two years after the G-7 leaders pledged their personal attention to finishing the Uruguay Round of trade-liberalization talks, the world still is far from an agreement. The key logjam: disputes between the U.S. and the European Community over farm subsidies. "The Americans are hung up with the ideal of agriculture, and it's absurd," complains an adviser to French President François Mitterrand.

REACTOR RIFT. Only aid to Russia offers hope of major progress in time for Munich. Led by Bush and Kohl, the G-7 pledged \$18 billion in economic aid and a \$6 billion ruble stabilization fund in April. The Russians won't see most of that until President Boris Yeltsin asks the International Monetary Fund for terms on an economic reform plan. But a good-faith effort by Russia, including unification of its various ruble rates into a single floating rate by July 1, could secure it \$1 billion in time for the economic summit.

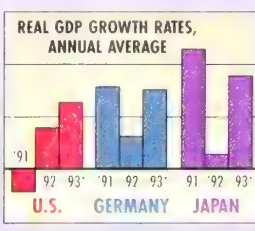
The best chance for a deal, though, lies on a plan to bring Russia's dangerous nuclear power plants under control. Europeans living in the shadow of Chernobyl want to pay \$700 million to begin shutting the worst reactors, while the U.S. and Japan argue for cheaper measures, such as training and stricter safety rules. While the debate has been stalled for weeks, the pressure of the summit should focus negotiators' minds.

Prospects for success are so slight that summiteers might well wish they could stay home. "Their domestic economic problems have reached the point where progress at the summit would be difficult," says Ellen L. Frost, senior fellow

at the Institute for International Economics at a Washington think tank. Tending to stay home fires may lack the glamour of international summitry. But domestic issues are where the G-7 must focus now.

By Mike McNamee in Washington, with John Javetski in Paris and bureau reports

SLOW GOING FOR THE BIG THREE



HOW DO YOU CLEAN UP 2,000-MILE GARBAGE DUMP?

The U. S.-Mexico trade talks offer little hope and meager funds

Two years ago, firefighters in Juárez, Mexico, rushed to deal with a truck that had spilled its contents across one of the border city's roads. Firefighters sprayed the spill with water, creating a hissing cloud of noxious vapor. The truck had been carrying sulfuric acid. No one was hurt, but Juárez' chief environmental inspector, Oscar Ansivais, still shudders when he recalls the incident. "The fire department is ready for a fire from 1950," he says, "but one with the chemicals you have now."

The situation is much the same in other newly industrialized cities along the 2,000-mile U.S.-Mexico border, where U.S. industry has built 2,000 plants during the past 20 years. The factories pour rivers of toxic chemicals each year, from benzene to xylene, in a region where people are accustomed to posing of cattle and crankcase oil. The result? Sewage and toxic waste from Tijuana flows into California, polluting beaches. Cows graze on leaded dumps in Tijuana.

Raising the specter of tainted milk, U.S. inspectors are still investigating the spilling of 685 barrels of toxic waste they found dumped near Juárez last April. This environmental danger zone is about to take center stage as Mexico and the U.S. inch closer to striking a North American Free Trade Agreement (FTA). With negotiators hammering the final points of the trade deal, President Bush and Mexican President Carlos Salinas de Gortari face a growing deluge of complaints about the environmental problems the pact could produce. **MAYHEM.** Last year, the two nations agreed to head off the controversy with a plan to boost pollution enforcement, build sewage treatment plants, and exert control over hazardous chemicals. Officials from both countries hope to lay out the next steps of the cleanup, includ-

ing dealing with the region's dirty air, at a summit planned for June 25 and 26 in Santa Fe, N. M.

Yet neither effort has stemmed the acrimonious debate over NAFTA and the environment. The fight is waged mostly by U.S. labor unions and environmentalists from both countries. They insist that eco-mayhem along the border will only worsen once NAFTA takes effect. Both governments insist that free trade is the only way to give Mexico the wherewith-



BORDER CESSPOOL: MEXICO IS CRACKING DOWN ON PLANTS THAT SPEW TOXIC WASTE

al to match strict U.S. pollution standards. "The best way to ensure that Mexico has resources for environmental investments is through strong economic growth," Daniel C. Esty, deputy assistant administrator of the Environmental Protection Agency.

But even free-trade boosters admit that the cross-border cleanup is long on press releases and short on money. The Border Trade Alliance, a business group that supports NAFTA, estimates that some \$5.5 billion is needed to prepare the border's environment for free trade (table). But the EPA has asked Congress for just \$240 million in 1993 funding for the problem. And Mexico says it can spend just \$460 million on the effort during the next three years.

Given the monumental size of the task, that money won't go far. Fire de-

partments need new equipment. Hazardous waste needs disposal sites. And both sides need more inspectors. Even efforts already under way come up short. Dirty water along the border kills thousands of infants each year because of the dehydration that accompanies diarrhea caused by drinking contaminated water. To deal with the problem, the two governments have proposed a new plant for Tijuana that could handle 25 million gallons of sewage a day. But that's short of current demand and doesn't include funding to link the half of the city that isn't hooked up to sewage pipes.

CHASTENED. A year ago, as free-trade opponents focused their environmental arguments, Mexico began a crackdown on *maquiladoras*—border manufacturing plants. The 80 temporary closings have been Mexico's best weapon against pollution, thanks to the publicity they

CLEANING UP THE CROSS-BORDER MESS

Mexico has put \$460 million into cleaning up industrial pollution along the border. Congress and the Administration are dickering over the U.S. contribution—between \$200 million and \$500 million. The problems are substantial:

HAZARDOUS WASTE

Materials are transported across overburdened bridges and roads and illegally dumped into clandestine landfills

AIR POLLUTION

The region is subject to new diagnostic studies, but in the meantime auto and industry emissions are rising

SEWAGE

Funding for new sewage treatment plants has increased on both sides of the border. But a steady stream of untreated waste still flows into the Rio Grande and Gulf of Mexico

REGULATORY SHORTFALLS

Few plans have been developed for coping with toxic accidents. And while Mexico recently doubled its ranks of environmental inspectors, it faces a shortage of qualified inspectors

DATA BW

create. "Environmental consciousness has risen dramatically over the last 18 months," says Javier Guerra, president of Química Omega, a hazardous-waste treatment plant near Mexico City. After one of its border plants was temporarily shut down last year, General Motors Corp. announced plans to spend \$20 million on waste-water treatment facilities at 31 of its *maquiladoras*.

Stopping the region's polluting outlaws will be much harder. The minute U.S. Customs inspector Pablo Contreras begins randomly checking southbound traffic for toxic waste, the trucks turn around. Once the two countries are on the same trade team, those trucks may not have anywhere to turn.

By Joe Old in Ciudad Juárez and Stephen Baker in Mexico City, with S. Lynne Walker in Tijuana



THE BENCH GIVES BUSINESS A BREAK

The high court has mostly favored corporations at the states' expense

Business expected a lot more in recent years from the Supreme Court's conservative majority. Until the latest term, the justices imposed few curbs on state regulators trying to fill the regulatory vacuum left by the Reaganauts and Bushniks.

Now, and despite the defeat the court handed tobacco interests on June 24 (page 33), business in general seems to be scoring. Throughout the term set to close June 30, the court has curbed the states' reach. In disputes ranging from taxation to airline advertising to garbage disposal, "business has done pretty well," says Kenneth S. Geller, a Washington lawyer.

Some court watchers attribute industry's success to "the luck of the draw, not a change in philosophy," says U.S. Chamber of Commerce General Counsel Stephen A. Bokart. But the justices also seem to be sending a message: States can't regulate and tax business at will.

While the court will engage in judicial activism on social issues, restraint is in

vogue for business cases. The rationale: Sticking to stable ground rules "fosters investments by businesses and individuals," as Justice John Paul Stevens noted in rejecting one corporate tax.

READ OUR LIPS. Nowhere were states more aggressive—and the court more sympathetic to business—than on taxes. The recession and federal-aid cuts have forced states to search for cash. Often, they grab for the biggest pot around—corporation coffers. "We're really scratching for new money," says Nicholas Spaeth, Attorney General of North Dakota.

That state drew a bead on Quill Corp., a \$200 million Lincolnshire (Ill.) mail-order company. North Dakota wanted to tax Quill's in-state sales, though it had no operations there. The court said no, pointing to a 1967 ruling barring states from taxing companies that lacked a "physical presence" in the state. Officials in Bismarck had argued that the heady growth of the mail-order industry, which now has \$200 billion in annual

sales, made the prior ruling obsolete. The states could collect back taxes, they would have killed a lot of companies, says Quill President Jack Miller.

New Jersey fared no better. It had tried to snag a cut of the \$211.5 million profit that Southfield (Mich.)-based Borden Inc. made on its 1981 sale of stock in Asarco Inc., a metals company incorporated in New Jersey. No dice, said the court. Prior cases had allowed states to tax the operating earnings of out-of-state companies if the companies had ties to the state. But the court said New Jersey had gone too far by taxing profits on a passive investment.

The court kept the states on a short regulatory leash, too. It held that the federal Airline Deregulation Act of 1978 bars Texas from bringing deceptive advertising charges against Trans World Airlines Inc. and other carriers. And the court blocked Illinois from licensing hazardous-waste workers, saying the federal Occupational Safety & Health Act of 1970, not widely varying state law, regulates their training.

'LEVEL PLAYING FIELD.' The court also trashed two state laws aimed at keeping out other states' garbage. It declared unconstitutional Alabama's scheme charging higher fees for the disposal of hazardous waste from beyond its borders than from within. Michigan tried to bar out-of-state garbage altogether. Both rulings clear the way for waste haulers to choose the best sites for disposal plants. "It's easier for management to make good capital investments if they can expect a level playing field," says John T. Van Gessel, senior counsel for Oakbrook (Ill.)-based Chemical Waste Management Inc.

Still, the court gave business a boost or two. In a boost to traditional notions of antitrust enforcement, the justices said Eastman Kodak Co. had to start trial on charges it attempted to monopolize the servicing and sale of parts on its copying and micrographic equipment.

And the court said the Federal Trade Commission could bring a price-fixing action against title insurers. The insurers had claimed they were beyond the FTC's reach because they had filed their rates with the states, and state approval can provide immunity from federal antitrust law. But the court found the states weren't vigilant enough regulators to let the insurers to escape federal scrutiny.

If the states want to toss lariats at business, the court suggested a way. Get lawmakers to change the rules. But Congress isn't likely to put the states at the top of its agenda. And now, business can rest assured that the high court is no rush to change the rules.

By Catherine Yang in Washington

HIS DECISION MAY BE HAZARDOUS TO TOBACCO'S HEALTH

The high court leaves the industry open to suits charging concealment



FEDERAL JUDGE SAROKIN CALLS THE TOBACCO INDUSTRY THE "KING OF . . . DISINFORMATION"

Hours after the U.S. Supreme Court issued a complicated ruling on June 24 in a long-awaited cigarette-liability case, tobacco companies are claiming a big victory. But when the smoke finally clears, cigarette makers may find that the decision in the *Cipollone vs. Liggett Group Inc.* case leaves them far more vulnerable to anti-smoking activists.

At first glance, the 7-2 vote does appear to favor tobacco companies. The court ruled that warning labels exempt them from liability in cases where smokers charge they were not adequately warned of the risks of smoking after 1969, four years after labels were required. In addition, the court said plaintiffs can't base their suits on advertising promotions published after 1969.

OPEN DOOR. But the justices left an important door wide open: Lawsuits may proceed in cases that allege tobacco companies misrepresented or fraudulently withheld information concerning smoking and health. "There's ample information that tobacco companies misrepresented themselves," says John F. O'Connell III, executive director of Action on Smoking & Health, a Washington-based antismoking organization.

Not surprisingly, tobacco companies hotly deny the misrepresentation charges. They point out that they have never settled or lost a suit based on such claims. Says James V. Kearney, outside counsel for Liggett Group Inc. on the *Cipollone* case: "In the past, juries have consistently recognized that the public is not uninformed about the health risk of smoking."

Before the *Cipollone* case reached the high court, a federal jury in New Jersey had found that Rose Cipollone, a smoker for 40 years who sued three tobacco companies after a cancerous lung was removed, was 80% responsible for her illness. But the jury did award \$400,000 in damages for the 18 years she smoked before warning labels were mandated. After Rose Cipollone died in 1984, her son, Thomas, appealed to the Supreme Court. In the end, the high court gave the *Cipollone* family the option of retry-

ing the suit by alleging fraud and misrepresentation. An attorney for the family says it hasn't decided its next move.

Tobacco-company stock prices plunged on the news of the court ruling. But after most Wall Street analysts rushed out strong buy recommendations, prices steadied. At the end of trading on June 24, Philip Morris closed slightly higher, while RJR Nabisco fell just a hair.

'CONCEALMENT.' The market's relief may be short-lived. Antismoking groups and plaintiff's lawyers continue to uncover damaging information on tobacco companies. In a suit that may have far greater impact than *Cipollone*, a federal judge in New York City ruled in February that tobacco companies must hand over 1,500 pages of evidence concerning the Council for Tobacco Research, an industry trade group formed in 1954 to study the health risks of smoking.

Plaintiff Susan Haines, whose father died of lung cancer, is alleging that cigarette makers and the council withheld important research that showed the dangers of smoking. Worse, the industry's claim that it was sponsoring independent research was a fraud, the suit alleges—and the judge agreed. "The tobacco industry may be the king of concealment and disinformation," wrote federal District Judge H. Lee Sarokin in his ruling. Defendants in the case are appealing. The Haines case also has caught the eye of federal prosecutors, who are conducting a criminal probe of tobacco companies and the research council.

On a separate front, tobacco companies are feeling the heat as the second-hand-smoke controversy intensifies. In late June, the U.S. Environmental Protection Agency issued a draft report that reinforces earlier findings that environmental smoke is a known human carcinogen and is particularly dangerous to children. Antismoking lawyers predict that second-hand-smoke liability cases will proliferate if lawyers uncover evidence that cigarette makers knew about and concealed the dangers.

Finally, tobacco companies may face more government scrutiny. Committees in both the House and Senate are considering legislation that would for the first time subject cigarette makers to Food & Drug Administration scrutiny on health and safety issues. "The Supreme Court case will start knocking down some walls in the tobacco industry fortress," says Scott Ballin, a vice-president of the American Heart Assn. If he's right, tobacco companies will be fighting a lot more than the *Cipollone* case.

By Walecia Konrad in Atlanta, with Catherine Yang in Washington

TOBACCO'S OTHER LEGAL HEADACHES

SMOKERS' SUITS Some 50 other liability suits may get a boost from the *Cipollone* ruling. In one case, a federal judge ordered the industry to release 1,500 documents because prima facie evidence existed that the industry engaged in a pattern of fraud. Defendants are appealing

FEDERAL PROBE The U.S. Attorney's office in Brooklyn is investigating the tobacco companies for mail and wire fraud

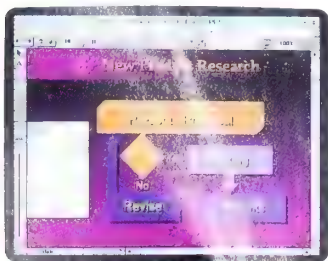
CIVIL FRAUD CASE A suit brought in California claims the industry hid the dangers of smoking from the public. The suit wants defendants to air corrective ads and repay the state all fraudulently obtained money

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Commentary/by Judith H. Dobrzynski

A SWEEPING PRESCRIPTION FOR CORPORATE MYOPIA

As a member of a panel advising academic researchers on U.S. competitiveness, Senior Editor Dobrzynski had an unusual vantage point for viewing the issue. Her report:

A couple of years back, two dozen of the country's best business professors set out to answer a question that has bedeviled Corporate America for years: Why are U.S. managers so shortsighted? Under the auspices of Harvard business school and the Council on Competitiveness, a private group of chief executives, the experts sought solutions to a problem that's so often blamed for declining U.S. competitiveness.

A funny thing happened along the way. Harvard's Michael E. Porter, the project director, discovered that policymakers, managers, and investors all have been fixated on the wrong question. Management myopia per se isn't the cause of the decline. Nor is its offshoot, underinvestment. U.S. corporations invest too much in some areas—acquisitions, to name one. Porter says the other oft-cited culprits—high capital costs, impatient Wall Streeters, cantankerous shareholders, greedy managers, wrong-headed compensation plans, supine boards of directors—are all just symptoms, too.

The real blame, he now believes, goes to the way America's financial system allocates capital. It misdirects funds both among and within companies. Externally, the system shortchanges companies that can deploy capital most productively. Internally, it steers funds to wasteful projects instead of toward research, training, and other initiatives that would boost a company's long-term prospects. In short, Porter found, "the money doesn't go to the right companies for the right investments."

Porter's report, which synthesizes the research of 25 academics, should reset the agenda for reform. Deficiencies in America's financial system, he shows, are largely

the unintended consequences of policy decisions affecting patterns of corporate ownership, stock valuation, and capital budgeting. They can be fixed without sacrificing the financial system's impressive efficiency and dynamism. What's more, the report should stop action on the old half-solutions that betray a misunderstanding of the problem. Taxing stock transactions or abolishing quarterly financial reports, for example, would do more harm than good.

TRANSIENTS. To understand why the nation's competitiveness is sliding, Porter looked at investment patterns. Sure enough, American companies invest less than foreign rivals in research, training, supplier relations, and other intangibles, thanks partly to Wall Street pressures and to the vagaries of macroeconomic policy. But there are some telling paradoxes. Some industries seem able to invest for the long term without being penalized by the market—pharmaceuticals, for instance. And the U.S. often shines in high-risk startup industries that require huge up-front investment, such as biotechnology. Here's another puzzler: Why do executives readily invest hefty sums in acquisitions, even though most never pay off?

Porter figured something had to be amiss in the way capital is allocated. Unlike rivals in Japan and Germany, which



PORTER: MONEY ISN'T GETTING TO "THE RIGHT COMPANIES FOR THE RIGHT INVESTMENTS"

boast permanent, well-informed, involved investors, U.S. companies get equity capital from a transient of institutional owners. They hold stakes in hundreds or thousands of companies, thanks to policies encouraging diversification of risk. Because of these constraints, their investment information is filtered through Wall Street. The influence management. To appease shareholders, managers set goals in terms of return on investment and price. Incentive compensation packages, especially stock options, further distort financial goals.

NUMBERS GAME. Inside corporations, a similar process takes place. As companies grow larger, management increasingly diversifies operations. Lack of discipline and bolts information from executives—especially diversified companies—the business via line managers. And they select projects for investment, they base decisions on projected returns rather than on financial criteria.

These ways of allocating capital both within companies and outside them distort one another. The bottom line: Less overall investment spending on what is easily measured, less focus for long-term projects. The process favors what is valued, such as acquisitions. And it encourages narrow

PORTER'S KEY RECOMMENDATIONS

GOVERNMENT SHOULD:

- ▶ Allow institutions to hold equity and debt, as well as big stakes
- ▶ Modify rules so that earnings reports reflect true performance
- ▶ Expand public disclosure, remove restrictions on board membership
- ▶ Provide stable macroeconomic policy

CORPORATIONS SHOULD:

- ▶ Seek long-term investors and give them a voice in governance
- ▶ Avoid antitakeover devices that insulate management
- ▶ Name shareholders, suppliers, and other outsiders as directors
- ▶ Link incentive compensation to competitive position
- ▶ Avoid unrelated diversification
- ▶ Better evaluate investment in intangibles, such as training

INVESTORS SHOULD:

- ▶ Take larger and longer-term stakes in fewer companies
- ▶ Learn more about holdings
- ▶ Seek active, constructive discussions with management
- ▶ Push for changes in corporate policies, such as accounting rules

DATA: HARVARD BUSINESS SCHOOL/COUNCIL ON COMPETITIVENESS, BW

ment in mature businesses that face shed prospects, because they too are understood and more easily valued. Companies that want to head into new territory must explain the venture in detail to holders. But normally, there's no good or management to communicate its to investors. The exceptions: emerging ries and, say, turnaround situations, investors know current earnings will for some time but are willing to take on the future.

INVESTORS. How can all this be Refreshingly, Porter doesn't admimicking the Japanese or German ns—which offer less flexibility to raw capital when a company is on the track and little regard for small holders, to name two drawbacks. In- Porter proposes a panoply of initia- by government, corporations, and holders that, taken together, would age management to make the invest- that maximize the long-term value of ations (table).

lly, U.S. companies would operate in le macroeconomic environment that d access to a larger pool of savings vestment. A better-informed, broader of shareholders would hold larger and take a more active, constructive n advising companies. Executives know more about the businesses manage and would base investment ns not on numbers alone, but also on tive measures. Managers and own- ould work toward the same goals, oth recognizing that parallel invest- in "softer" items, such as employee ing and supplier relationships, en- the potential gain from spending on ssets.

ian? Probably. Porter is unlikely to e sweeping response he's demanding. arters, getting from here to there s leadership that the government few signs of providing. And it re- both management and institutional olders to yield some independence. Porter: "Institutions should not ex- gain greater influence over manage- without giving up some of their cu- rating flexibility, for example, while ement should not expect informed mitted owners without giving them voice in decisions." The temptation th will be to seek sacrifice by the out cede little themselves.

report deserves better. By redefin- i issue that will nag at Corporate a until something is done, it merits or, at bare minimum, debate on a plane. The process begins on June en Porter was set to testify before nate Banking Committee. The U.S. thing to lose, and everything to gain.

THE SEC'S CEO-PAY PLAN: NO PANACEA

Studies suggest linking pay to performance actually hurts performance

If executive pay is going north while performance is going south," says Richard Koppes, a California state pension-fund executive, "something is wrong." By that standard, something is deeply wrong in many corners of U.S. business: Executive pay keeps spiraling into the stratosphere even at poorly performing companies.

The Securities & Exchange Commission thinks it has a remedy. On June 23, the commission proposed new proxy

rules that would force companies to provide shareholders with clearer details about how executives are paid and how that pay relates to the company's stock performance. The SEC reforms "could force a dramatic change in how boards set executive pay," says Ralph V. Whitworth, president of United Shareholders Assn.

But before shareholders celebrate a victory, they may want to think about the possible unintended consequences of linking executive compensation to stock price. Some experts who have studied companies that tether pay closely to performance have isolated some worrying trends (table).

BAD OPTIONS? Consider a study by three professors at schools in Nebraska. It looked at 324 companies that adopted stock-option plans for executives in 1978. Over the following five years, the managers trimmed spending on research and development by 10%, sometimes in favor of risky new ventures. Shareholders "suffered more risk, but didn't get a better return," says Richard DeFusco, a University of Nebraska finance professor. He and his colleagues discovered that the average return on assets dropped from 12.45% to below 9%. And profits fell from 102% of the average of similar companies to 92%.

Research by Richard G. Sloan, an assistant accounting professor at the Uni-

versity of Pennsylvania's Wharton School, makes a telling point. Sloan studied 58 drug, chemical, and technology companies that tied pay to performance. He found that in the five years before CEOs retired, companies cut back on R&D and advertising. Sloan's inference: The CEOs were trying to boost their earnings, bonuses, and retirement pay.

It's hard to argue with higher earnings and stock prices, but Meredith Corp. Chairman Robert A. Burnett, who

was at the center of a pay flap as head of ITT Corp.'s compensation committee, is wary. Linking pay more closely to stock price, he warns, "is just giving an invitation to management to manipulate figures and actions."

DRIFT. Take Ralston Purina Co. In 1986, directors of the St. Louis-based consumer-goods maker agreed to award management nearly half a million shares if the stock closed above 100 for 10 straight days. What did Ralston executives do? Management used borrowed funds and much of the company's free

cash flow to buy back nearly one-third of Ralston's shares. Ralston's stock price, adjusted for a two-for-one split, doubled, to 116½.

That was fine for executives—and shareholders—in the short run. But since January, Ralston's stock has drifted down to a split-adjusted 91. Analysts fault the company for excessive financial engineering and a lack of attention to core businesses. A Ralston spokesman says the pay plan and management's later actions "have been beneficial to shareholders."

The SEC reforms are welcome—they could even slash some megasalaries. But it's not at all certain that corporate performance will grow. For shareholders, the price of a well-run company will still be eternal vigilance.

By Dean Foust in Washington

A CLOSER LOOK AT EXECUTIVE PAY

Academic studies suggest a higher stock price doesn't always mean a better company. Here's why:

RESEARCH DECLINES One quick way to boost a company's stock price is to cut R&D spending. But corporate performance suffers from a lack of new products

ROA DROPS When companies link pay to stock performance, return on assets declines, both in absolute terms and when compared with similar companies

THE CEO TINKERS Since the chief's retirement pay often is pegged to his or her earnings in the last years on the job, some will go to great lengths to produce big profits just before retiring

DATA BW

AUTOS



THE GOOD WORD: FROM '95 ON, THE \$400 MILLION FACTORY WILL MAKE 30,000 CARS A YEAR

THE BEEMER SPOTLIGHT FALLS ON SPARTANBURG, USA

BMW decides the math of building its first U.S. plant finally adds up

Since their heyday in the mid-1980s, Germany's luxury carmakers have suffered a few crumpled fenders in the U.S. First, the strong German mark sent their sticker prices into orbit—and their sales plunging. Next, upstart Japanese models such as Toyota Motor Corp.'s Lexus and Nissan Motor Corp.'s Infiniti started grabbing sales (chart). Finally, Uncle Sam added insult to injury by hitting up the Germans' customers for 85% of the \$220 million collected last year from a new luxury tax.

With a situation like that, it's no surprise that Eberhard von Kuenheim, BMW's soft-spoken, aristocratic chief executive, is taking stiff measures. On June 23, BMW announced that it will build its first major plant outside Germany—in Spartanburg, S.C. From 1995 onward, the \$400 million factory will make 30,000 BMWs a year, rising to 70,000 by the year 2000—more than BMW has sold in the U.S. in any year since 1988. Moreover, it will be the sole plant producing a new model based on the company's hot-selling 3-Series compacts. Kuenheim says his aim is “to maintain, secure, and build up” BMW's position in the U.S. luxury-car market, the world's biggest.

WAGE GAP. Maybe, but even Bernd Pischetsrieder, BMW's manufacturing director, concedes that it's “a risky decision.” For one reason, the United Auto Workers union says it will go all out to organize the plant. Moreover, BMW will be putting its reputation for sterling quality

in the hands of the 2,000 young American workers it plans to hire. The last time a German auto maker tried state-side production, it was a disaster. After Volkswagen took over a plant at Westmoreland, Pa., the Rabbits it produced there were plagued by quality screwups. VW closed the plant a decade later, in 1987, after piling up \$1.5 billion in losses and tons of ill will.

Kuenheim and corporate planning director Helmut Panke, though, say that this time the arithmetic of U.S. production is running in the Germans' favor. Assuming the UAW fails to organize Spartanburg, they figure that initial labor costs there will be at least one-third lower than the \$28 an hour, including fringe benefits, that BMW pays at home. All told, savings from lower wages plus

production efficiencies could save BMW \$2,000 to \$3,000 a car, says James Harbour, a Troy (Mich.) consultant. That's quite a competitive jump, considering that the cars involved start at around \$22,000.

There are plenty of other savings, too. Shipping costs will drop by up to \$2,500 for each car made and sold in the U.S., the company says. BMW also is reaping a cumulative \$135 million bonanza in local and state tax breaks and subsidies for investing in the plant. And for good measure, South Carolina will extend to Greenville-Spartanburg airport's free-trade-zone status to the 900-acre plant site, meaning BMW won't have to pay duties on parts imported from Germany or elsewhere.

SNAFU AVOIDANCE. BMW isn't taking any chances on sacrificing quality, either. Indeed, it's so confident that the new plant's cars will be top-notch that it plans to export at least half of them to Japan and Europe. To avoid embarrassing snafus, the cars will at first be assembled mainly from German parts. And as BMW begins to buy more stuff locally, it will rely heavily on the U.S. units of trusted German suppliers such as Robert Bosch, which makes brakes and other parts. Even when the U.S. content builds up to 50% to 70% by the late 1990s, key components such as engines and axles will still come from Germany.

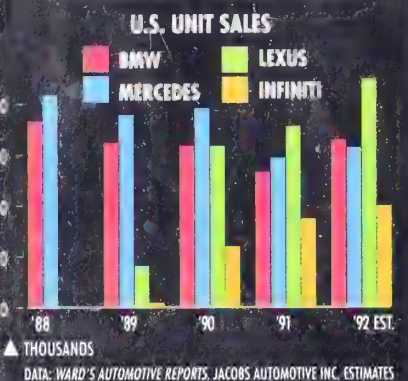
Kuenheim's timing could turn out to be impeccable. America's graying baby boomers are reaching middle age, making them prime buyers of upscale autos. Susan Jacobs, president of Little Falls (N.J.) market researcher Jacobs Automotive Inc., predicts that sales of luxury autos will jump 20%, from 1.25 million this year to 1.5 million in 1995, when BMW's plant is up and running. Of course, BMW's rivals also have noticed the demographic trend. Mazda Motor Corp. plans a new luxury line, Amax, for 1994. And other Japanese rivals, such as Honda Motor Corp.'s Acura Div., may start building luxury models in the U.S. if sales warrant.

If any foreign carmaker can make the success of U.S. production, though, is probably BMW. In just a couple of years, the company has reoriented its lineup toward lower-priced models and staved off most of the problems that loomed when Reagan-era consumption waned. Indeed, BMW's U.S. sales are expected to jump 24% this year, to 66,000 units.

BMW won't know whether its gamble has paid off until well after the first models roll off the line. But given the route BMW has mapped, the Carolina Beemers seem to be a fair bet.

By John Templeman in Munich, with David Woodruff in Detroit

BMW GAINS ON MERCEDES—AS LEXUS PULLS AWAY



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CAROLCO MAY BE HEADED FOR A QUICK DISSOLVE

The production company is reeling from debt and management feuds

No one has more Hollywood style than Mario F. Kassir. When the 40-year-old Carolco Pictures Inc. chairman cruised into last year's Cannes Film Festival on a rented 203-foot yacht, he drew as much attention as the film he came to promote—a little number called *Terminator 2*. But when Hollywood hit the Riviera this year, the good ship Kassir had been dry-docked. "I have no reason to party," he told reporters as he strolled with *Basic Instinct* stars Michael Douglas and Sharon Stone.

Give Kassir credit for knowing when the music has stopped. Things have been tough all year for the producer whose

big money: *Instinct*'s budget was \$47 million. *Terminator* cost \$90 million.

To guard its investments, Carolco frequently told investors, it collected enough advances from video and foreign rights to cover the huge costs of making the movies. But there wasn't always enough left over to cover overhead, interest, cost overruns, and the percentages paid to stars.

The result of Carolco's largess? "A disaster waiting to happen," says S. G. Warburg & Co. Vice-President Lisbeth E. Barron. By last spring, Carolco's bankers agreed—and began slashing the company's lines of credit. The recession

pany Canal Plus, Japanese electronic company Pioneer, and Dutch video distributor RCS Video International. The forked over \$130 million in exchange for a 40% stake.

Kassir, whose ownership fell from 54% to 35%, called the three "strategic partners." But he viewed the equity-raising as a ploy to oust him. Hoffman, who isn't talking, ended up leaving. He left March with a \$1.8 million settlement. About the same time, Carolco's three partners agreed to provide an additional \$73.8 million in equity, loans, and guarantees, in return for all of Carolco stock in a video unit and the right to increase their Carolco stake to 75%.

SWALLOW HARD. Now in control of seven of Carolco's 13 board seats and a majority of the company's five-person executive committee, the three companies installed former Bankers Trust Co. Managing Director William A. Shpall as Carolco's top strategic planner. The firm hired Allen.

Kassir, who won't comment, isn't out



BIG HITS, SMALL PROFITS

Carolco Pictures' biggest-budget flicks*

Movie	Budget	Worldwide ticket sales	Carolco's net revenues
RAMBO III	\$55	\$189	\$80
TOTAL RECALL	60	262	80
TERMINATOR 2	90	490	120

*Millions of dollars

DATA: CAROLCO PICTURES, INC.

BETWEEN ROCKY AND A HARD PLACE: SCHWARZENEGGER, CAROLCO'S KASSIR, AND STALLONE AT THE CANNES FESTIVAL

extravagance—he shelled out \$16 million to Sylvester Stallone for *Rambo III* and gave *Terminator 2* star Arnold Schwarzenegger his own airplane—could make the rest of Tinseltown look like pikers. Burdened by a mountain of debt and restive bankers, Kassir's Los Angeles film-production company, which posted some \$601 million in 1991 revenues, has lost \$269 million over the past 15 months. Its management is in flux. And on June 12, it said it had hired New York investment-banking firm Allen & Co. to manage a massive restructuring.

BIG SPENDER. How Carolco got in such straits is a story of excessive spending, lavish lifestyles, and a pair of executives who couldn't work together. The company still knows how to make hit films: *Terminator 2* has generated nearly \$500 million in ticket sales, and *Basic Instinct* has pulled in some \$107 million. But it knows even better how to spend

compounded Carolco's woes, causing losses in its television syndication and home-video businesses.

The downturn in Carolco's fortunes came just as the fighting between Kassir and Carolco President Peter M. Hoffman picked up. Hoffman, a former tax lawyer, wanted to hold the line on costs. Kassir wanted to spend big bucks on revenue-generating movies. In one now-infamous face-off, Kassir agreed in early 1991 to give director Oliver Stone \$2.5 million above the original \$40 million budget for *The Doors*, even after Hoffman had rejected the request. "There were armed camps on both sides," recalls *L. A. Story* producer Daniel Melnick, who resigned from the Carolco board in April, 1991.

The flow of red ink sent Hoffman looking for fresh equity in early 1991. He lined up three of Carolco's major foreign distributors: French cable com-

pany of the picture. Hungry for hits, the investors have signed him to a three-year contract. He'll average \$1.7 million annually, plus part of the action on his films.

To save Carolco, Mario Kassir's new bosses will have to swallow a lot of debt. By November, \$126 million in bank loans come due. To raise cash, they're selling assets, but that has proved difficult. A deal to raise \$64 million by selling rights to Carolco's film library recently fell apart.

With so much money already sunk into Carolco, its new owners will probably ante up. Kassir certainly doesn't seem worried. The filmmaker in April began production on his latest Stallone adventure film, even though he had raised half of the \$60 million he needed. The money came through even as the crew was heading for Europe. The name of the picture? *Cliffhanger*.

By Ronald Grover in Los Angeles

The
Experienced
Flyer

He Always Takes His Caviar With A Grain Of Salt.

He's in Manhattan
on Wednesday. Paris on
Thursday. Frankfurt, Rome
and Vienna after that.
He's seen more of the world
than most of the world.
So don't think he cares just
for glitz and glitter.
He doesn't choose his airline
by trivialities.
He wants someone who can
get him down to business.
Where he needs to be.
When he needs to be there.
Which is why we give him
more flights across
the Atlantic than any other
airline in the world.
He knows that 4,900 times
a day to over 300 cities across
34 countries, he can count
on us to get him there, and
get him back. With some nice
departures along the way.
Like beluga on ice.



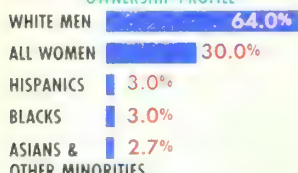
DELTA
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EDITED BY HARRIS COLLINGWOOD

WHO'S IN BUSINESS?

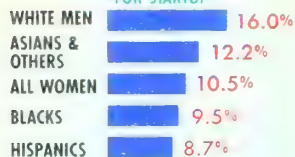
Since the riots in Los Angeles, minorities' cries for economic empowerment are growing louder. So a newly released federal study of small business is especially timely. The data on 13.7 million individual proprietorships, partnerships, and Subchapter S corporations are from a 1987 economic census and are the latest available.

OWNERSHIP PROFILE



FIGURES DO NOT ADD TO 100% BECAUSE WOMEN ARE INCLUDED IN THE TOTAL FOR EACH RACE

THOSE WHO USED BANK LOANS FOR STARTUP



DATA: CENSUS BUREAU

O&Y OFFERS A DEAL TO ITS CREDITORS

► Hoping to stay out of Chapter 11, Olympia & York Developments is proposing to sell some U.S. properties. But under a plan presented to its U.S. lenders, O&Y would retain most of its nearly 30 million square feet of U.S. office space. The buildings earmarked for sale are mostly outside New York City, where O&Y is the largest commercial landlord.

O&Y also is negotiating with creditors involved in its Canadian bankruptcy reorganization. On June 24, it offered to sell various assets to cover its operating and restructuring costs. But some creditors object to having to fund those costs until the assets are sold.

ONE MORE PREMIUM DEVELOPERS MUST PAY

► Commercial real estate developers now face yet another obstacle to borrowing money.

On June 23, Fleet Financial Group made it mandatory that developers buy environmental liability insurance before they can obtain loans of \$1 million or more.

While it's clearly an added cost, Fleet says the price is less than developers would pay if they tried to obtain the insurance on their own. Via Fleet, three years of coverage for a wide range of undetected environmental hazards costs \$10,000 to \$12,000 on a \$1 million loan. Many banks, worried about their liability for the growing costs of cleaning up foreclosed properties, likely will copy the move.

KAISER STEEL RUNS OUT OF APPEALS

► Kaiser Steel Resources won't be able to recover \$162 million it paid out to shareholders in a 1984 leveraged buyout. Kaiser had claimed that it's entitled to the money because the LBO was a "fraudulent conveyance" of the company and the payout caused its insolvency. But on June 22, the Supreme Court refused to hear Kaiser's appeal of a ruling that had rejected that argument.

Going private was Kaiser's downfall. Burdened by excessive debt, it filed for bankruptcy protection in 1987. The company sued Wall Street firms that sold their Kaiser stock in the LBO, arguing that

WHAT'S NEXT? FREEING THE INNER KITTEN?

It's darn near impossible to be trendy these days without suffering from something. Books on that ultravague, ultrafashionable disorder, co-dependence, sell millions of copies. Bald men form support groups for the follicle-impaired.

Naturally, responsible cat owners would hate to have their furry loved ones miss out on the sweet suffering of their very own malaise. Now they need not. You see, Tabby may be lactose-intolerant. And all this time you thought she just didn't like milk. To help alleviate this tragedy, the intrepid researchers at Alpo Petfoods have come up with Dairy Cat low-lactose milk drink for cats. It will hit store shelves this fall, retailing at 49¢ for five ounces. Says Alpo nutritionist Mark Fine, "Cats and milk are a natural together." Of course, if they're such a natural fit, one might ask why cats have such a hard time digesting the stuff. But that would be nit-picking.



the firms should have known the deal would fail. The Supreme Court, though, agreed with the lower court that the payments could not be recovered.

KALEIDA GETS ANIMATED

► Kaleida, the multimedia joint venture announced by Apple Computer and IBM last October, is ready to roll. On June 23, the companies said that the venture's new CEO will be Nathaniel Goldhaber, an entrepreneur and venture capitalist. Two IBM and two Apple executives will fill

out the Kaleida board.

The new company's top goal, says Goldhaber, is to make it easier to add video, music, or animation to a computer, from a handheld device to a desktop machine. Japan's Toshiba says it will be Kaleida's first customer, using its software in a personal organizer that it will develop jointly with Apple. Dubbed Sweet Pea, the product is scheduled for release in 1993.

A COURT MAKES THINGS HARDER IN SOFTWARE

► The software industry is about to become even more competitive. On June 23, a federal appeals court judge in New York City ruled that a program made by Altai, a Texas company, doesn't infringe the copyright of a similar program from giant Computer Associates. Unlike a 1987 ruling by another court, the June 23 decision allows software makers to imitate a program's structure as long as they don't copy the original computer code. CA says it'll appeal. The ruling should help Borland International's defense against Lotus Development, which is suing Borland for violating the copyright of Lotus' 1-2-3 spreadsheet.



HEARD ALL ACROSS THE LAND: THE DECLARATIONS OF INDEPENDENTS

Ross Perot gets all the attention. But around the country, folks like Tom Humbert are joining the undeclared independent candidate for President in the most serious assault on America's two-party politics in decades. The conservative Humbert decided on an independent run for Congress after learning that the south-central Pennsylvania district's Republican incumbent, Bill Goodling, bounced 439 checks at the House Bank. "This district is full of tightfisted German farmers, merchants, and businesspeople," says Humbert. "If they did the same thing, they'd go to jail."

Without organized backing or access to funds, independents are usually dismissed as hopeless amateurs. But inspired by Perot, serious independent challengers are cropping up like fireworks stands before the Fourth of July. Political experts think some will win and more will be spoilers in close races. The likely result: a further erosion of parties and party discipline on Capitol Hill.

HOLLOW CITADELS. Anger at both Democrats and Republicans is about the only thing uniting the new crop of political free agents. They should all be held accountable for this mess," says independent House candidate Jim King, a Naples (Fla.) accountant and talk-radio host who is hoping to topple veteran Republican Port J. Goss. Humbert is a former aide to Housing Secretary Jack F. Kemp. Linda Reidelbach, an anti-abortion activist from Columbus, Ohio, entered the race after the GOP nominee waffled in choice. Lu Anne DiMatteo, a nurse from Rochester, Minn., is liberal taking on both a conservative Democratic incumbent, Timothy J. Penny, and a moderate Republican.

Dismay with politics as usual creates an opening. "I'm a staunch Republican, but the two major parties are spending too much time feuding with each other," says Humbert backer Joe Morris, a Gettysburg (Pa.) area planning commissioner. Adds Democratic consultant Ann F. Lewis: "The political parties

in this country are like hollow citadels. They are 19th century structures that are clearly inadequate for the 21st century."

Can independents win? "The environment is certainly ripe for independent candidacies everywhere, if they are credible and have a message," says G. Terry Madonna, a political scientist at Millersville University in Pennsylvania. Governors Lowell P. Weicker Jr. of Connecticut and Walter J. Hickel of Alaska won in 1990 after bolting the GOP, and one independent, Bernard Sanders of Vermont, is now in the House. Lionel Kunst, a Kansas City businessman and co-founder of the Coalition to End the Permanent Congress, predicts up to 20 independents in the House. "There's a mini-revolution going on," says Kunst, who ran for the House as a Democrat in 1988. "People are unhappy with the Republican Establishment."



PENNSYLVANIA'S HUMBERT

'DONNA QUIXOTE.' Kunst is probably too optimistic. But even in losing efforts, independents can reshape races. In New Hampshire, the Senate candidacy of disaffected Republican businessman Larry Brady could allow a Democrat to beat the anointed Republican, Governor Judd Gregg. A possible write-in campaign by Oregon Democratic primary loser Harry Lonsdale could draw enough votes from nominee Les AuCoin to save GOP Senator Bob Packwood. Similarly, in Pennsylvania, the possible candidacy of former Representative Eugene Atkinson, an anti-abortion conservative, could help Democrat Lynn Yeakel unseat pro-choice Republican Arlen Specter.

Even with the parties at a low ebb, the mavericks face a tough road. They're motivated, but unlike Perot, all are underfunded and will find it tough just to get their names recognized by voters. "I refer to myself as Donna Quixote," jokes DiMatteo. But this year, no one should be surprised if these knights knock over a windmill or two.

By Richard S. Dunham in Gettysburg, Pa.

CAPITAL WRAPUP

THE PRESIDENCY

As bad as the national polls are for George Bush and Bill Clinton, state-by-state surveys reveal even worse woes. In Michigan, for example, a *Detroit News* poll shows Clinton trailing independent Ross Perot 29% to 39% among what should be one of the Democrat's bedrock constituencies, union households. Bush gets 22%. And in a further sign that both major-party candidates are in trouble with their electoral base, only 47% of those who voted for Bush in 1988 say they favor him this year. Clinton fares little better, getting just over half of the 1988 supporters of Michael S. Dukakis.

Things are even worse elsewhere. For example, in solidly Republican Nebraska, an *Omaha World-Herald* poll shows Bush and Perot tied at 36%. Clinton, with just 11%, is in fourth place, behind "undecided" at 17%.

JAPAN

Bush's ill-fated trip to Japan in January lives in infamy—in the Japanese language. A Washington think-tank economist says that on a recent choppy boat trip to Australia's Great Barrier Reef, he was startled to hear a group of Japanese sightseers referring to seasick companions as "Bush-oro" as they leaned over the rail. Rough translation: to do a Bush.

HEALTH CARE

While Republicans and Democrats argue over solutions, all parties agree that some 30 million Americans lack medical insurance. But a new Census Bureau study indicates that the issue is more complex than that. In the last quarter of 1990, 32.7 million people indeed were without benefits. But for many, the problem may have been temporary, perhaps because of short-term unemployment. A study tracking individuals over 28 months beginning in late 1986 found that only 9 million lacked insurance for the full period. But 61 million were without coverage for at least one month.

PRICE WAR I IS RAGING IN EUROPE

The winners are consumers, as businesses offer unprecedented discounts to survive in a new market

Life may imitate art, but sometimes art imitates economics. With four opera companies vying for customers in Paris these days, managers of the small Théâtre des Champs-Élysées have found a simple way to compete with bigger rivals: They're cutting ticket prices across the board. Music lovers will soon be able to save as much as 10% off the going rate of about \$95 a ticket to hear the world's top divas.

That leitmotif is sounding more and more often on Europe's business stage, too. The mere hint of an economic upturn used to trigger price hikes of 5% or even 10% to fatten up corporate bottom lines. But not this time. Today's European market, swamped with goods as trade barriers drop, is doing exactly the opposite: From airlines to retailers to manufacturers of finished goods, price cuts are the order of the day (table). The biggest winners are Europe's consumers, who so far haven't benefited much by the move to a single market.

Nowhere is the new order more evident than at Philips Electronics. Pressured by competition, the Dutch giant on June 17 warned investors to expect a poor showing in this year's second quarter. There's an ongoing fire sale of Philips products. As shoppers walk through

the GB Maxi supermarket on Boulevard Leopold III in Brussels, for example, they can grab U.S.-style coupons offering discounts worth 10% to 15% off irons and deep-fat fryers.

CLONE WARS. The economic ripples go beyond temporary price cuts. With market unity nearly at hand, European companies are facing a revolution in the way they do business. Many companies will be forced to overhaul pricing strategies and protect markets through mergers. "What you're now seeing is a scramble

for limited volume through price competition," says Marcus Grubb, an economist at UBS Phillips & Drew in London.

Take computers. Years ago, U.S. manufacturers and retailers suffered a pricing bloodbath because of the spread of IBM PC clones and low-cost distribution. The trend has finally migrated to Europe. Not long ago, European PC prices averaged 30% to 50% higher than U.S. prices. Now the differential is just 10% or less—barely enough to meet the costs of adapting U.S. products for European markets. For Olivetti, Europe's leading PC maker, that spells bad news. While the Italian company boosted unit sales in the first four months of this year, revenues fell 4%. Things aren't much brighter for big U.S. manufacturers such as IBM and Compaq Computer Corp.

Or take transportation. In recent weeks, carriers have broken their vows to resist the current round of transatlantic airfare cuts and jumped in. Lufthansa cut its business class fare on its Washington-Frankfurt route from \$3,016 to \$2,000 on June 9. And within Europe, carriers are turning to frequent-flier programs, a longtime U.S. favorite. The radical "open

WHERE PRICES ARE PLUNGING

AUTOS Fiat offers \$1,600 rebates and zero-interest-rate financing in Italy on its \$10,000 Uno compact

COMPUTERS ComputerLand in Brussels cuts price of Compaq 386 PC by 40%, to \$1,125

CONSUMER ELECTRONICS Philips is offering discounts on appliances, knocking 12% off a \$53 coffee maker

RETAILING Sport superstores slash the price of Titleist golf balls by 50%, to \$22 per dozen

DATA: BW



IN PARIS: SMALL SHOPS
ARE UNDER SIEGE

ies" program that the European Commission adopted on June 22 will next year permit all EC airlines to fly anywhere in Europe, which should touch off further fare wars. That would be welcome relief for passengers. A Paris to Athens round trip, for example, now costs a stratospheric \$1,740.

The scramble is also on in automobiles. In Italy, Fiat has watched local market share drop from 53.8% in 1990 to 7% now, as competitors such as Ford Europe Inc. have priced themselves out of the auto makers' Italian stronghold. In a fight back, Fiat this spring began offering such incentives as a \$1,600 rebate on certain models and zero-interest financing.

GAMARKETERS. Europe's way of doing business through quaint small shops is under siege. Shaking things up are hundreds of new, low-price superstores. In Britain, for example, the big U.S. chain, Sainsbury's, plans to double its six shops by next year and open another 20 in France, Germany, and Sweden within two years. Its pricing power: discounts of up to 50% on some sports gear. And in France, two German food chains, Aldi and Lidl, are opening discount stores, forcing native retailers such as Carrefour to cut prices. Carrefour in turn is trying to squeeze suppliers. "We're hunting for cheaper goods all over Europe," says Carrefour president Michel Pinot.

At the same time, European consumers, burned by unemployment and debt, keep the price pressure on. "Historically, you would just pass along price increases, and inflation would take care of it," says Ronald A. Miller, chairman of Scottish textile manufacturer Dawson International PLC. "Life," he sighs, "is as before."

That's just what some single-market members predicted years ago: that a one-time effect of creating a borderless Europe would boost consumer real incomes. For business, it will "spur greater activity as a way to get economies of scale," says Michael Hughes, European strategist for London securities house Barclays de Zoete Wedd Ltd. To help sew up its home market, for example, French supermarket chain Carrefour in mid-June bought out competitor Auchan, which should boost Carrefour's revenues by 50%, to \$12 billion annually.

As companies move to shore up local markets, the drumbeat of price competition is likely to get louder. Even if Europe's second thoughts about its broader future persist, the consumer benefits from economic growth spurred by lower prices should reassure Brussels that it's on the right track.

by Bill Javetski in Paris, with Richard Felcher in London, Jonathan B. Levine in Paris, and Patrick Oster in Brussels

EUROPE

EUROTECH BLOWS A FUSE

Global competition is bashing Bull, Siemens, and Philips

The past few weeks have produced a spate of distressing news for some of the mainstays of Europe's high-tech industry. At state-owned French computer maker Groupe Bull, for instance, record losses of \$2 billion over the past three years finally did in Chairman Francis Lorentz on June 23. But the government's curious choice of successor, Bernard Pache, the head of the state coal company, seems ominous. He is better known for mothballing businesses than for rebuilding them.

Bull was far from alone in making European high-technology analysts uneasy. Only days earlier, Dutch behemoth Philips Electronics destroyed the optimism building around its return from massive 1990 losses with the news that its flagship consumer-electronics business is floundering. Perhaps more unsettling, Germany's Siemens has quietly decided against dumping more cash into a losing war with Japanese and South Korean memory-chip rivals. The decision will knock Europe out of the global race in a critical technology after 1995—and leave Siemens' partner, IBM, searching for a new mate.

HYBRIDS. All in all, these developments are "further indication that Europe's old-line players are still struggling to compete," says William J. Pade, head of McKinsey & Co.'s European electronics consultancy in London. Last year, the Continent's trade deficit in high-tech products—mainly computers, chips, and consumer electronics—hit a staggering \$40 billion. And, Pade warns, "things will get worse rather than better."



SIEMENS IS EUROPE'S LAST CHIPMAKER

TROUBLE SPOTS IN EUROPE'S HIGH TECH

BULL Chairman ousted as big losses in mainframes and PCs continue

SIEMENS Retreats from advanced memory chips, ending Europe's role in that market

PHILIPS Turnaround set back by deep discounting in consumer electronics

DATA BW

That will put pressure on European players to accelerate ties to U.S. and Asian allies for new technology and investment. The result may be more global hybrids operating in a web of cross-ownerships and alliances.

The change at Bull comes at an awkward moment. After a decade of constant restructuring, Lorentz finally had cut costs by slashing 13,000 jobs and settled on a strategy to unify Bull's jumble of computer product lines. Despite government opposition, he linked up with IBM and NEC Corp. But the fact that 1992 first-half losses would approach \$285 million helped give vindictive bureaucrats an opening to dump Lorentz. **SHOCKER.** Now, the turnaround is up to Pache, 57, head of Charbonnages de France. There are no signs yet that he will make any changes in Bull's strategy. But the company already has lost crucial time in bringing new products to market because of the warfare over IBM and NEC, says French computer analyst Daniel LeBourhis.

The same holds true for Philips. Savage price-cutting on televisions, videocassette recorders, and other consumer gear has stopped the company's turnaround cold. After a rebound last year to \$553 million in profits before extraordinary items, Philips warned in mid-June that 1992 profits could slide below last year's. That was a shock to analysts, who had not been tipped at a meeting just days earlier. The resulting 18% plunge in Philips stock immediately triggered a lawsuit from U.S. investors claiming that the company had misled them. "We presented the information as



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timely as possible," says Henk Bodt, chairman of the consumer-electronics unit. Now, the company's fate hangs more than ever on its ability to stimulate consumer demand with new products, such as a digital audio-cassette player set for launch next fall.

RATHOLE. Such jams are increasingly forcing Europe's technology giants to face up to the realities of global competition. When the market for new 16-megabit DRAMs, or dynamic random-access memory chips, winds down in the mid-1990s, Siemens will retreat as Europe's

sole domestic producer. That leaves Europe without a maker of the product considered crucial to developing advanced production techniques for other chips. The reason for the retreat: Japanese and Korean price pressures mean "our losses grow with every DRAM we sell," says Klaus H. Knapp, a senior director in Siemens' chip unit, which has recently suffered annual losses of roughly \$300 million. An investment of \$1 billion in a plant for next-generation 64-megabit chips, which Siemens was widely expected to build with IBM, would

be money down a rathole, he says. While cutting losses is welcomed by Siemens investors, the retreat is a blow to those who fear it could expose European chip buyers to hardball tactics by Asian suppliers, especially in a market shortage. "Relying entirely on the outside is dangerous," warns a European Commission official. About the only thing more dangerous would be a further crippling of Europe's technology leaders in a year that's shaping up as a make-or-break for many.

By Jonathan B. Levine in Paris

JAPAN

TOKYO FIDDLES WHILE THE NIKKEI BURNS

Everyone is plenty jittery, but regulators are reluctant to act

If you thought the Nikkei roller coaster was over, watch out. Real estate fiascos, new cracks in the insurance giants, and more bad economic news are all bearing down on Japan's deflated stock market. Once, the betting was that a Nikkei falling to 16,000 would spell disaster. Now, with the market closing on June 24 at just 15,854, gurus say it could sink a further 20%. And some bears argue that the fair value for Tokyo stocks is an incredibly low 6,000 to 8,000.

The stock market sell-off is starting to rattle Japan's financial Establishment. Three of the top eight insurance companies are busy adding up losses on their massive stock portfolios. Cash cushions at major city banks, once fat, are now uncomfortably thin. And analysts warn that if the economy does not improve soon, banks struggling to prop up troubled borrowers may soon get hit harder. "If the government steps in too late [to support the economy]," says Tetsuo Tsukimura, an economist at Smith Barney, Harris Upham & Co., "the financial system will collapse entirely."

HANDS OFF. Yet the government is curiously silent. Japan's regulators could prop up the market by diverting a greater portion of the \$2.3 trillion in funds for public pensions, insurance, and postal savings into stocks or by cutting capital-gains taxes. But officials say no such measures are imminent. Banks aren't collapsing, they insist, and real estate prices are still too high. Nor are central

bankers inclined to cut interest rates, saying Japan's "bubble" economy still needs deflating. True, "there has been a loss of confidence," admits one senior official. "But supporting the stock market is not a policy objective."

The laissez-faire strategy could be risky. Some fear that as the Nikkei stock average moves to new lows, losses could unravel the interwoven financial system. Take the real estate bust, involving prop-

erty and finance companies and the banks that back them. Mitsui Trust, for instance, helped bankroll Azabu Tatemono and Dai-Ichi Real Estate Group of binges in the late 1980s. The two companies are now struggling to pay interest on huge debt, one-third of which is owed to Mitsui. The trust bank's share plunged 25% in June and are just 18% of their peak value in 1987.

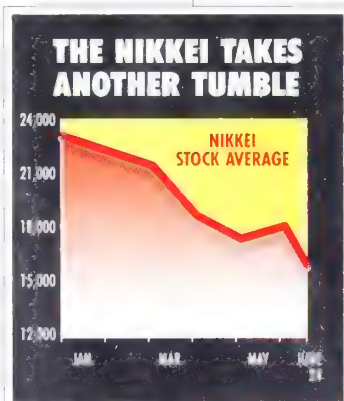
'LONG WAY TO GO.' How bad could things get? Kathy Matsui, market strategist at Barclays de Zoete Wedd Ltd. (BZW), thinks one big bankruptcy could trigger a run on the market, pushing down to 13,000, as financial companies fully one-fourth of the Nikkei's value are sold. But Tsukimura at Smith Barney believes gradual loosening of cross shareholdings and slower long-term growth will push the market as low as 6,000. "We're still in a decline," says

Tsukimura. "There's a long way to go down."

Banks may lead the way. One estimate puts bad loans at \$424 billion. That figure is sure to rise as the lifeless economy topples ordinary manufacturers in addition to speculators. Tsukimura thinks a few banks could go under. To cope with the spread of red ink, sources say Tokyo may even set up a U.S.-style Resolution Trust Corp.

A few see some relief down the road, perhaps by yearend. BZW's Matsui expects the Tokyo bourse, like the New York market, to rally six months before industrial production and indicators pick up. That would send the market up around 22,000, says Matsui. "It won't be a 1980s-style bull market," she says. Those days seem long ago indeed.

By Ted Holden in Tokyo



TOKYO'S EXCHANGE: SOME SEE IT FAIRLY VALUED AT 6,000

BEIJING IS ON AN ARMS BINGE, AND THE NEIGHBORS ARE NERVOUS

With the Soviet Union consigned to the dustbin of history and the U.S. scaling back its forces in the Pacific, China is extending its reach. In what is shaping up as a major weapons-shopping binge, Chinese arms buyers are wooing the former Soviet Union for advanced weapons that will automatically boost the military's ability to intervene far away from the mainland. U.S. intelligence officials say China is also turning up scores of out-of-work Russian engineers and scientists.

China's leaders see in the Soviet demise and the U.S. pullout from Subic Bay and Clark air base in the Philippines an opportunity to play what they view as their pivotal role in the world's fastest-growing region. While it is bitterly divided over economic policy, the Beijing elite generally subscribes to the centuries-old conviction that China, not the U.S. or anyone else, should call the shots in Asia. Despite Beijing's nuclear arsenal, there has always been a gap between China's military capability and its self-image as a superpower," says Ng Ka Po, a military specialist at *China News Analysis*, a Hong Kong journal.

DE TIES. But that may be changing. Pumping into its \$40 billion hard-currency reserves, China bought 24 Russian-made long-range Su-27 fighter planes last year, reversing a mutual, 30-year freeze on arms sales. There have also been widespread reports that Beijing is negotiating to buy Soviet T-72 tanks, IL-76 transport planes, an aircraft carrier, and refueling knowhow that would give its bombers a range of more than 1,000 miles.

China is also using diplomacy in its bid to take over regional leadership. It won much goodwill by brokering the Cambodia settlement last year and has normalized troubled relations

with India and Indonesia. It's also trying to boost its trade ties in the area to cut its reliance on the U.S. market, which Congress might someday close to punish human-rights violations.

But the Chinese aren't being shy about displaying muscle. In a move that shocked other Asian countries, China recently signed an oil-exploration deal with Denver-based Crestone Energy Corp. in an area in the Spratly Islands in the South

China Sea, 1,000 miles from the Chinese mainland. Although the area is also claimed by Vietnam, Crestone's owner, Randall C. Thompson, says that the Chinese promised to use "full naval force" to back up Crestone.

Beijing's strategy appears to be to intimidate its neighbors so as to win favorable settlements in its many territorial disputes with them. Already, says Australian analyst Gary Klintworth, countries such as Thailand and Vietnam "have come to terms with the fact that China will become the dominant great power" in Asia.

A senior U.S. official calls China's new pushiness "ominous" and says it is a good reason to keep up a U.S. military presence in the Pacific. China's neighbors apparently agree. The U.S. is already talking to newly elected Philippine President Fidel V. Ramos about using Subic to service ships. Singapore has granted U.S. forces expanded access to bases. And nonaligned rhetoric aside, both Malaysia and Indonesia this year have quietly negotiated agreements making their bases available to U.S. forces and may hold exercises with U.S. units. It may take more than that to keep China's dangerous moves in check.

By Pete Engardio in Hong Kong and Amy Borrus and Joyce Barnathan in Washington



POWERFUL VISION: CHINESE SUBMARINE

GLOBAL WRAPUP

ISRAEL

As exit polls began to indicate an astonishing landslide for Israel's Labor Party in general elections June 13, supporters at the party's victory celebration in Tel Aviv's Dan Hotel erupted for joy. But some of the loudest cheers are coming from Israel's business community. The day after the polls closed, a tidal wave of buy orders caused the Tel Aviv Stock Exchange to surge by close to 8%. "There is a good chance now to have real peace, real defense, and real economic growth," says Benjamin D. Gaon, chief executive officer of Koor Industries Ltd., Israel's largest company.

Businessmen such as Gaon are optimistic that a government led by Yitzhak Rabin would be much less beholden to the special-interest groups that have typically paralyzed Israeli politics. For the first time in years, an Israeli government does not have to depend for its survival on the support of fringe religious or extremist parties. Rabin, the dour, 70-year-old general who oversaw Israel's victory in the 1967 Six-Day War, has indicated that he will appoint ministers based on qualifications rather than political ties when he presents a government to the Knesset in mid-July.

The dollars-and-cents payoff could follow quickly. Rabin's promise to

freeze the controversial and costly building of Jewish settlements in the West Bank is likely to result in the Bush Administration swiftly unblocking some of the \$10 billion in long-term loan guarantees that Israel has requested to resettle former Soviet Jews. A green light from the U.S. would also improve Israel's international credit rating and trigger similar loan deals from Germany.

But some economists worry that the money will just delay economic reform. Israel is way behind other countries in privatizing state enterprises. Unless it speeds up its privatization program, the new funds will be squandered on a wasteful public sector.

THE AIRLINE MESS

IS AMERICAN'S BOB CRANDALL PART OF THE PROBLEM—OR THE SOLUTION?

June 10 was shaping up to be Bob Crandall's kind of day. The CEO of American Airlines had learned that Continental and shareholders of America West had sued his company for predatory pricing. And he was about to face a Senate committee looking into accusations that American was out to drive weaker competitors into the ground. While other chief executives might have adopted a conciliatory stance, Crandall faced down the lawmakers and his accusers with guns blazing.

"America West's management has failed," he snapped. And Northwest's owners are "wheeler-dealers who loaded the balance sheet with debt." Crandall told them the market must be allowed to "finish the painful process of eliminating surplus capacity." Then he offered his own stark vision of the airline industry:

"This business is intensely, vigorously, bitterly, savagely competitive."

It's the kind of business where Robert Lloyd Crandall feels right at home. After serving seven years as chairman and CEO of AMR Corp., parent of the world's largest airline, the man some call "Fang" or "Darth Vader" is still the industry's fiercest competitor. His dog-fighter tactics—such as more frequent flights on selected routes than other airlines can muster and bursts of lower prices—have driven some weaker rivals to despair.

WREAKING HAVOC. But Crandall is also indisputably an airline visionary. Frequent-flier programs, Super Saver fares, a two-tier wage structure, and creative use of computer reservation systems were all Crandall innovations that redefined the way airlines do business.

Crandall, 56, is still out to remake the industry, and this time his competitors are more fearful than ever. America's recent simplified fare structure and dramatic half-price promotion in May have suddenly thrown almost all airlines into a tailspin.

Other carriers that had hoped for a relatively decent second quarter are now but certain to sustain losses because of the price war. Fort Worth-based American Airlines Inc. itself expects to post a second-quarter loss—at a time when some analysts say it should be making money. And foreign rivals, even as they push to deregulate their own markets, are worried that Crandall's aggressive expansion overseas will wreak havoc on them (page 54).

The world according to Bob Crandall

TWENTY YEARS AT AMERICAN

1973 Bob Crandall joins American as senior vice-president for finance

MID-1970s Crandall develops SABRE reservations system into a travel-agency booking tool, after attempts at developing an industrywide system fail

1976 American pioneers sophisticated yield-management techniques by using data from SABRE system to predict booking trends on specific flights



1977 Super Saver fare program introduced, offering deep discounts to leisure travelers and revolutionizing fare structures. TWA and United file complaints, blasting fares as money-losing propositions, but Civil Aeronautics Board permits them. Competitors later follow

1980 Crandall becomes president; promptly shuts down some routes and grounds 18% of carrier's fleet as he begins overhaul of airline

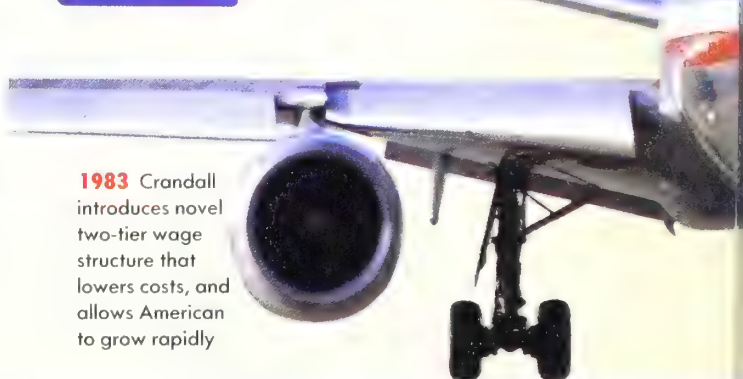
1981 American unveils AAdvantage, industry's first frequent-flier program, a powerful tool in developing brand loyalty. Other carriers follow



1984 American places then-single biggest aircraft order in U.S. aviation history—\$1.3 billion—for 67 MD-80s



1983 Crandall introduces novel two-tier wage structure that lowers costs, and allows American to grow rapidly



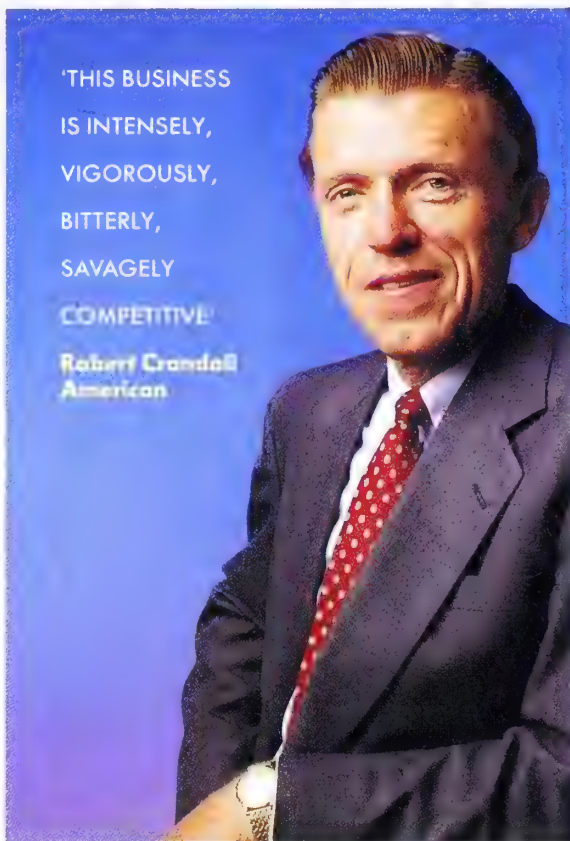
any of his U.S. and overseas competitors believe, is a world in which they no longer exist. "Crandall's strategy is cannibalistic," says Air France Chairman Bernard Attali. "His goal is to kill the weak. He plans to do that in the U.S. first. Later, he'll try the same thing overseas."

To hear Crandall tell it, he is the most misunderstood man in Corporate America. "We are more victims than villains," he says. Victims of carriers in Chapter 11, such as Continental Airlines Inc. and Trans World Airlines Inc., that have used their bankruptcy status to lower costs unfairly. Victims of increasing labor and other operating costs. Victims of protectionist governments and their flag carriers abroad. Victims, says Crandall, of "our dumbest competitors"—those that charge low fares, which American and others are forced to match but that often make it impossible for any carrier to make money.

THE DEATH. All those factors, says Crandall, rob American of its ability to control its destiny. "The business is driven entirely by the behavior of our competitors," he says. Each airline decides what's best for it without regard for what is best for the industry. "Dumb or not, weaker airlines' behavior is certainly understandable: With fewer planes and flights, often poorer service, and some with reputations tarnished from bankruptcy, they believe they must undercut the majors to win

**'THIS BUSINESS
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VIGOROUSLY,
BITTERLY,
SAVAGELY
COMPETITIVE'**

**Robert Crandall
American**



passengers. Yet Crandall is emphatic: "We cannot give them a price advantage." And so the endless price wars go on—until one or more carriers destroy themselves.

That leads many to fear the creation of a cozy oligopoly. Critics point to the recent settlement of a price-fixing case in which American, United, Delta, and USAir recently agreed to pay more than

\$400 million to former passengers. The four all deny the charges, however.

The latest fare battles have diminished the prospects of survival for such weakened airlines as America West Airlines Inc. and TWA. American itself may be at risk, Crandall warns—and not only because of low fares. Soaring costs may force the major carriers to take drastic steps. "Let's suppose the next two or three years go by—and American goes bankrupt, Delta goes bankrupt, and United goes bankrupt," he says. "Now, we're all bankrupt."

'PREDATORY.' That scenario may sound farfetched. But in the past two years, the industry has bled an astounding \$6 billion in red ink. AMR itself—with revenues of \$13 billion in 1991—has lost \$280 million in the past two years. And the short-term prospects are little better. Thanks in part to the recent fare war, for which some hold American responsible, Crandall's airline will likely suffer a loss in 1992. Except for Southwest Airlines Co., none of the major carriers is expected to turn a profit.

Critics say Crandall is partly to blame. On Apr. 9, American portrayed its new fare structure as one that would benefit the entire industry. "Value Pricing" offered just four fares for any route—instead of the plethora of convoluted fares that had become so frustrating to travelers. Corporate discounts were dropped. And American lowered coach fares 38%—to roughly the level that

1985 Crandall becomes chairman and CEO. Crandall and American sign a consent decree with the Justice Dept. to settle charges of price-fixing in 1982. United snaps up Pan Am's Asian routes. Crandall later regrets failure to buy those routes, as American is virtually shut out of Pacific



1989 Crandall buys Eastern's Latin American routes for \$470 million

1991 Having lost out on Pan Am's London routes, American buys three London routes from TWA for \$445 million



American Airlines®
BRINGING VALUE BACK TO AIR TRAVEL™

APRIL, 1992 American's Value Pricing plan simplifies fares and lowers coach fares as much as 38%. Rival carriers follow, but TWA and others grumble the plan is designed to kill weaker carriers

MAY, 1992 Responding to Northwest's 2-for-1 summer promotion, Crandall slashes summer advance-purchase fares 50%, creating a bloodbath among U.S. carriers. Crandall says he is defending his price structure

JUNE, 1992 Continental, America West shareholders, and Northwest file suits, accusing American of predatory pricing

DATA BW

those on corporate discounts had enjoyed. Simpler, cheaper, more equitable fares, said Crandall, would eventually stimulate demand and increase traffic on all carriers that adopted the new approach.

But many saw it as an attack. American was trying to destroy TWA's niche targeting fliers who could not get discounts, said TWA Chairman Carl Icahn—who promptly undercut American. "The whole program is largely predatory," says America West's CEO Michael J. Conway. Others cite as evidence American's admission that it would take a short-term hit from the new fares.

The 50% fare cut in May blew the controversy sky-high. The debacle began when Northwest Airlines Inc. announced a 2-for-1 promotion. American saw that as a challenge to its new pricing scheme. So it shot back with a move that matched the promotion while preserving its fare structure: It halved its summer advance fares. The result: Carriers counting on strong summer sales to sustain them through slower months saw their revenues going up in smoke. Says Edward R. Beauvais, founder and Chairman of America West: "What we have here is de facto regulation—with American as the regulator. They set the price and punish anyone who deviates." In the latest twist, American is seeking to raise prices, but not as much as some weaker carriers would like.

'CRAZY WAY.' To others, the shock waves are merely the natural consequence of deregulation. "What's happening now is a 10-year sweep," says Elizabeth Bailey, a former member of the Civil Aeronautics Board and now professor of public policy and management at the Wharton School. "Those in trouble are in trouble by and large because they leveraged themselves in the '80s. American didn't leverage itself in that crazy way."

Even so, the view from Crandall's cockpit is bleak. Costs are rising faster than revenues, and he's hard-pressed to do much about it. Demand is soft. Bankrupt carriers often make it impossible to raise prices. And American and such major rivals as United Airlines Inc. and Delta Air Lines Inc. face an increasing threat from their no-frills competitor Southwest.

While a dearth of venture capital or accommodating bankers lessens the prospects of a new rash of low-cost carriers taking to the skies, the traveling public is imposing its own marketplace discipline. Leisure travelers and a growing number of business travelers won't pay high ticket prices. They're opting instead to drive—or stay home.

Crandall has no choice but to preach a message of urgent reform. He says American and the industry must completely rethink the way they do business to survive in the next century. "We will do whatever is needed—however dramatic the changes may be." American's

"He sees himself as the enforcer," explains Northwest CEO John H. Dasburg. Northwest, like Continental, has seen American over its pricing moves.

Bob Crandall doesn't cave in to critics just because they make a lot of noise. Take the recent case of Cayman Airways Inc. The tiny flag carrier of the Cayman Islands recently took out an advertisement in *The Wall Street Journal* pleading with Crandall to discontinue its second flight American had added to the island. "How are we to explain to our children that an airline bearing the name of the only country which the average Caymanian admires even more than our own Great Britain has taken bread out of their mouths?" read the ad. Robert W. H. H. er, American's executive vice-president for operations, says the flights were authorized by the island government. But the airline has no intention of reducing its service, at least for now.

'CRANDO.' That may be standard operating procedure for an admittedly cutthroat industry. Yet CEOs of other airlines don't get open letters pleading for mercy. It's just that Crandall's legendary tough-guy image invigorates such tactics, which are intended to sway public opinion against him. That image is reinforced by tales of a company video in which Crandall, wearing camouflage and face paint, appeared as "Crandall." And it is that relentlessness that helped turn American from an also-ran about a decade ago—when he was first tapped to run the company—into the most powerful player today.

A graduate of Wharton and a financial man before climbing to the top ranks, Crandall remains a voracious consumer of statistical data. He grills lieutenants every Monday on details—from on-time records and baggage deliveries to aircraft factors and payroll labor hours—"ask me every time: 'Are we doing better than our competitors?'" says one former executive. "If you haven't done your homework, you do not want to meet with Bob Crandall," says E. Arnold Menn, a longtime acquaintance of Crandall's who runs an executive outplacement firm in Austin, Tex.

The chain-smoking Crandall's intense, driven style meshed well with his strategy for American throughout the '80s.



**'WHAT WE HAVE HERE
IS DE FACTO REGULATION
—WITH AMERICAN AS
THE REGULATOR.
THEY SET THE PRICE
AND PUNISH ANYONE
WHO DEVIATES'**

**Edward Beauvais
America West**

**'CRANDALL'S
STRATEGY IS
CANNIBALISTIC.
HIS GOAL IS
TO KILL
THE WEAK'**

**Bernard Attali
Air France**



Value Pricing is just the first of many things to put what Crandall calls value back into air travel.

Yet other than a simplified fare structure and a stubborn refusal to allow anyone to underprice him, Crandall is uncharacteristically vague on the details. That raises the question: Has Crandall's strategy all along been aimed at eliminating rivals and then boosting prices once they are gone? Crandall argues that the bloodbath never would have happened if other airlines hadn't challenged his pricing structure. But given the pressures his rivals faced, how could he have expected them to stay in line?

gorous expansion. From 1983 to 1988 alone, Crandall poured nearly \$7 billion into new planes, doubling the size of American's fleet, to 8 aircraft, and beefing up the work force 81%, to 78,000 employees. What made it possible was a novel two-tier wage scale that Crandall engineered in 1983. New hires were paid significantly less than old employees, making growth not only desirable but also necessary: The larger American grew, the easier it became to operate.

American was still growing at full throttle when the economy began slowing in 1990. And as troubled carriers such as TWA and Eastern Air Lines Inc. were forced to sell key assets in their efforts to stay aloft, American jumped to grab rich foreign routes. Defenders of American had no way to see the gulf air and recession coming and that it did no choice but to snatch growth opportunities. The same was true for United and Delta, which were buying aircraft and foreign routes as fast as American was. "It's fairly remarkable that it took several years of huge losses" before American and the other megacarriers slowed down, says analyst Philip Baggeley at Standard & Poor's.

HUNGRY? Now, Crandall is in the unfamiliar position of slamming on the brakes. Last November, he announced an \$8 billion, or 50%, cut in American's capital-spending plan over three years. United and Delta later followed suit. But Crandall is talking louder than anyone else about slowing down and cutting costs. "What the public wants is affordable transportation," he says, "and that's very difficult to do for a traditional airline."

Crandall's role model for an untraditional airline: Southwest. The spunky carrier, with \$1.3 billion in revenues last year, has been the most consistently profitable over the past decade. Its operations are unlike any other in the industry. Instead of a hub-and-spoke system, it flies point-to-point short trips—at rock-bottom fares. If you fly Southwest, you get a cheap ticket, but no advance boarding passes, no meals, and you can't transfer your baggage automatically to another carrier's flight. The absence of these services, plus an extremely productive work force, give Southwest a handsome 43% cost advantage over giant American.



BLEAK VIEW:
AIRLINES LOST
\$6 BILLION
IN '90 AND '91

Southwest's slow but steady expansion from its home base in Dallas to Phoenix, California cities, and now Chicago's Midway Airport worries Crandall. Southwest doesn't target the long-distance traveler and generally uses secondary airports. But it now operates many flights as long as two hours, and plenty of passengers are riding successive trips on Southwest to travel great distances. If the airline continues to turn profits while megacarriers lose money, Crandall worries that "Southwest will be as big as we are."

Crandall says he wants to imitate Southwest in many parts of the country,

er, the operations head, that he spent a recent Saturday afternoon at the Richardson (Tex.) library studying Coca-Cola Co.'s disastrous launch of New Coke in 1985. "They disenfranchised their most loyal customers," says Baker, who worries that American, which built a reputation for excellent full-line service, could do the same if it's not careful.

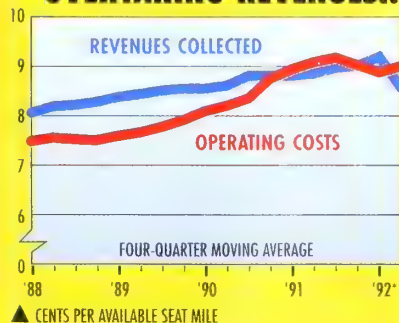
So far, Crandall's moves in that direction have been experimental. American has eliminated meals on many short flights, as has rival TWA, to try to dent its \$700 million-a-year food budget. On longer flights that aren't at mealtimes, American discovered passengers merely want a diversion, and not necessarily a meal. The solution: food as a toy, or "FAAT," which means handing out such goodies as granola bars or crackers. And American is replacing beef with chicken entrees on many flights, for a saving of \$470,000 annually.

JURY IS OUT. Yet even if Crandall makes headway in emulating Southwest, it won't be enough. Crandall warns he may surrender in some markets and close some of American's seven hubs. High on the hit list: Nashville, Raleigh-Durham, N.C., and San Jose, Calif. Travel patterns on the East Coast have changed, American executives say, since the airline first planned the operations in Nashville and Raleigh.

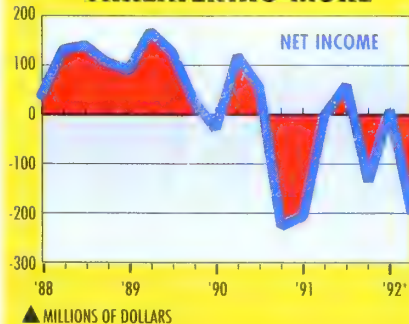
They're also experimenting with new ways of organizing flights at those hubs, but the jury is still out. San Jose, which mostly handles intra-California traffic, has been particularly hard-hit by Southwest's successful expansion. "Pricing in California is now being set by Southwest," says Donald J. Carty, American's executive vice-president for finance and planning. "The question is, can we ever make money in that business?"

The question is, can American make money anywhere if it doesn't get its

AMERICAN'S COSTS ARE OVERTAKING REVENUES...



...FUELING LOSSES AND THREATENING MORE



DATA: AVIATION INC., COMPANY REPORTS *SECOND-QUARTER ESTIMATES

fares more in line with its growing costs? Chief among Crandall's problems: labor. Payroll and benefits now account for one-third of American's expenses—and are likely to go higher. Restive union leaders, who note that American still enjoys a labor cost advantage over major competitors, will undoubtedly demand a bigger share of the pie.

After especially bitter negotiations in 1990, American agreed to a labor contract that will give the average pilot a pay increase of 14% in each of the coming two years. And benefits are rising even faster than wages. American argues that it is being held hostage: No airline can afford a strike. Analysts warn that as the industry consolidates, the balance of power will continue to shift in labor's favor.

EXTINCTION? Meanwhile, weaker carriers aren't going anywhere very fast. America West may not survive, some observers say. But TWA could hang on a few more years. Continental, with solid routes and strong hubs, may well emerge from bankruptcy with lower

costs and leaner operations. If it does, it can use its advantage to challenge American with lower fares. "The Big Three [American, United, and Delta] may turn out to be dinosaurs," says TWA's Icahn.

Extinction may not be imminent, but pressures are mounting. American's cost of renting airport space rose 20% last year. With 85% of all tickets booked by travel agents, up from 50% a decade ago, commissions have mushroomed. Fuel prices, always unpredictable, have been ticking up. Add to that the cost of new government regulations—covering everything from noise control to maintenance to drug testing—and there seems to be no relief in sight. "United, American, and Delta are going to have to figure out ways of lowering their seat-mile costs or get out of town," says Michael J. Boyd of Aviation Systems Research Corp. in Golden, Colo.

Crandall had banked on growth overseas, but that arena holds decidedly mixed prospects. Latin America does show great promise. Two years ago,

American nearly tripled the size of its operations there with the \$470 million purchase of Eastern's Latin routes. It has since plowed nearly \$100 million into developing the market, with good results. American has become the No. 1 carrier in the region, with a 50% share and is aggressively gaining share from local carriers. United, which bought American World Airways' Latin routes last year, has not made nearly as significant inroads.

CHINA-SHOP BULL. But strong protectionist sentiments in Europe have clouded prospects in that important market. Crandall has been virtually locked out of the Pacific, too. It's partly his own fault—for failing to go after Pan Am's Pacific routes when they were on the block in 1985. While Crandall called them too expensive, United snatched the routes for \$750 million. But Crandall, who has since conceded that the decision was a mistake, blames the Japanese part for keeping their markets so tightly controlled.

Crandall saves most of his ire for

THE YANKEE INVASION HAS FOREIGN CARRIERS RUNNING FOR COVER

Tensions are mounting in the international skies. With the gulf war safely past and the U.S. economy perking up, hordes of Americans are heading across the Atlantic this summer. Airlines are boosting flights to London by 12% and to Paris by 30%. That's good news for the tourist industry—but a nightmare for Old World airlines. Out to win bigger shares of transatlantic travel, feisty U.S. carriers are slashing prices and fighting for market share, causing most European airlines to lose money in this once-lucrative market.

European carriers worry that this summer's dogfight is just a foretaste of what's in store. Because deregulation led them to slash costs, U.S. airlines are in better fighting trim than the protected foreign carriers. The European Community itself has just taken a major step toward opening its skies—at least among member airlines. But for now, big, savvy American Airlines Inc.—whose fleet has as many jets as British Airways, Lufthansa, and Air France put together—especially frightens the Europeans. Chief Executive Robert L. Crandall "must be thinking: 'We've done it in the U.S. Now, we'll export our knowhow,'" says Robert Esperoux, head of air transport at France's aviation agency.

Esperoux and other Europeans are determined to block the U.S. onslaught. So they're taking the air war behind diplomatic closed doors. France has renounced decades-old air treaties with the U.S. that it considers too liberal. And Germany may soon do the same. They aim to negotiate tougher deals. Italy, too, seeks to limit U.S. flights. Talks that broke off recently are to resume in the fall—and Alitalia Chairman Giovanni Bisignani promises Italy will get just as tough as France and Germany.

'WACKO.' Such sentiments are terrible news for U.S. airlines. With markets growing slowly at home, they've been looking abroad for growth. New treaties could be more restrictive and could set

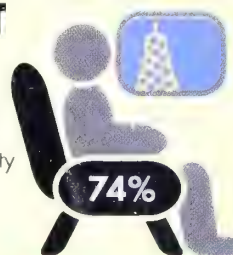
worrisome precedents for other protected countries. Canada, in current negotiations to expand air traffic with the U.S., is pushing to give its carriers an advantage in opening new routes. Japan resents the "fifth-freedom" enjoyed by United Airlines, Northwest Airlines, and Federal Express, which them haul passengers and cargo from Japan to other Asian destinations.

American's Crandall says his company anticipated such protectionism, beefed up its European presence in the late 1980s. Roughly 26% of its revenue will come from overseas in 1991, compared with just 12% in 1988. But American is being forced to scold U.S. negotiators, trying to tense the heat in recent months, have to force airlines to limit capacity to France and Germany this summer. And Crandall now says earlier plans to boost service to France next summer will probably be scotched. "It's a wacko thing when the French sacrifice their own

FREQUENT FLIERS

U.S. airlines have the lion's share of passenger capacity on most routes between the U.S. and overseas

ESTIMATES AS OF JUNE, 1992
DATA: AVIATION INC.



74%

FRANCE



69%

SPAIN



65%

JAPAN

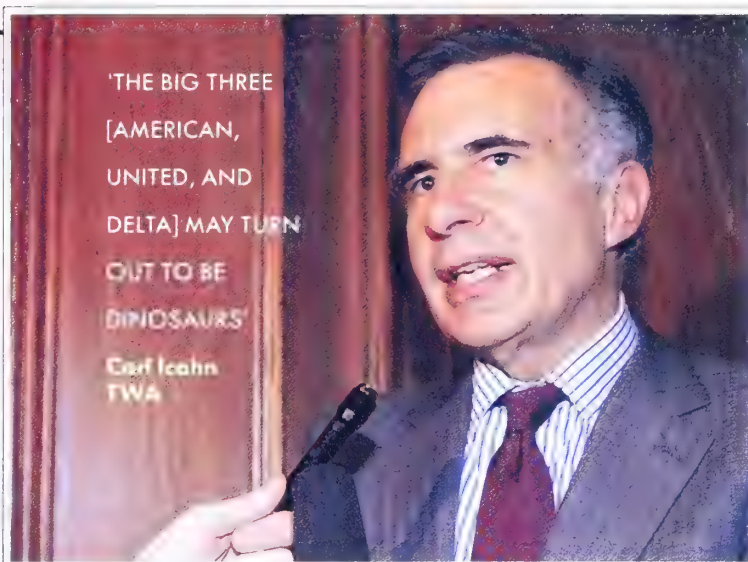
ite Dept. and Transportation Dept., which heims are too timid to defend U.S. carriers. He is gered by Washington's lure to insist that foreign governments uphold air treaties. "Now, if I s running the State pt., I'd say: 'Have at n, boys. Fly!'" says andall. Such bluster es not always help his se in Washington. "I nk it diminishes his ef-tiveness," says a Wash-ton representative for competing airline. "A il in the china shop esn't sell well here."

Global alliances might smooth the way erseas. American is now in talks with adian Airlines International, Cana-s second-largest carrier, about an allie in which American would pay ighly \$170 million for a 25% stake in The deal would include a potentially rative arrangement for American to vide computer services, and a mar-

ies for the sake of their airlines," s Crandall. "European airlines do not want competition."

jeans deny that. They claim to otection only until they, too, have ughened by deregulation. The EC eregulating gradually in the late n June 22, EC countries agreed to t steps, starting in January, 1993: ill get greater fare-setting n and rights to fly domestic inside EC countries other than vn. Growing competition will un-ly mean a U.S.-style consolida-Europe's 80 airlines—and perhaps liances with U.S. carriers, as the ans do everything they can to advantage.

ng as shaky Pan American World s Inc. and Trans World Airlines re the main U.S. rivals, Europe-n't worry. But stronger contend-e moved in—and there are more i. In 1986, only two American car-w to France; now, eight do. Air



keting plan that would further enhance American's role as North America's largest carrier. Another lure: Crandall would get access to Canadian's Pacific routes. If the deal goes through, it would be the largest alliance American has ever reached with a foreign airline.

Yet strength abroad won't mean much unless Crandall can find a way to fix his

problems at home. He must boost revenues and lower costs to earn respectable returns for shareholders. The last time American delivered what Crandall calls adequate return on equity was 1988—with 16%. He is trying mightily to achieve it again, but he is taking American and the rest of the industry into uncharted territory to get there. Yet whether Crandall is to blame for the havoc in the skies—or whether what has happened is the result of deregulation—may no longer matter. The competitive forces unleashed by deregulation and Crandall's own tactics are reshaping the industry. Now, he and his rivals must deal with a whole new set of problems, the solutions for which they have not yet found.

By Wendy Zellner in Dallas and Andrea Rothman in New York, with Eric Schine in Los Angeles and bureau reports

France's share of the U.S.-to-France market has fallen from 50% a decade ago to less than 30% today.

The Americans have unfair advantages, in the European view. Strong U.S. hub-and-spoke systems feed Atlantic routes. With smaller domestic demographic bases, building hubs has not been a viable strategy for European carriers. Now, United Airlines Inc. and Delta Air Lines Inc. are building hubs in Europe. But the Europeans can't do that in the sprawling U.S. market, where they are barred from hauling passengers domestically.

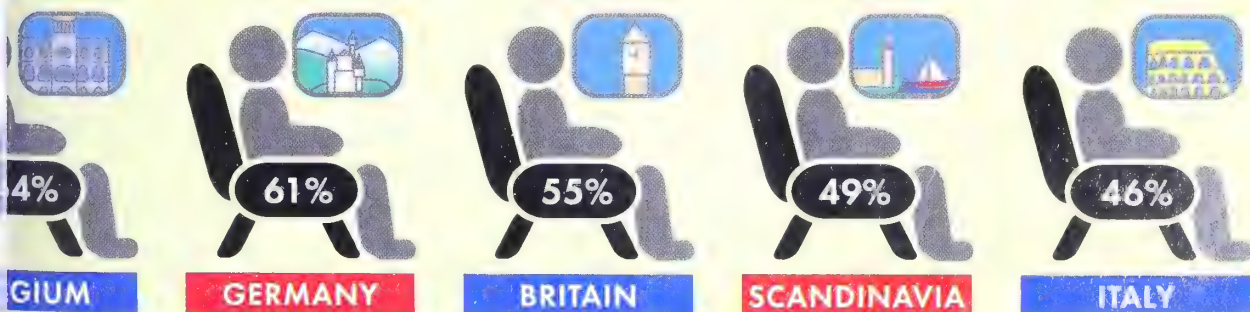
JOINT TREATY? "We're only asking for equal opportunity," says Lufthansa CEO Jürgen Weber. Germany wants a guaranteed 40% market share for German carriers across the Atlantic and a reduction in U.S. "beyond" rights from Germany to other countries. The latter would hurt Delta, which bought Pan Am's North Atlantic system last year—largely to gain unlimited rights through

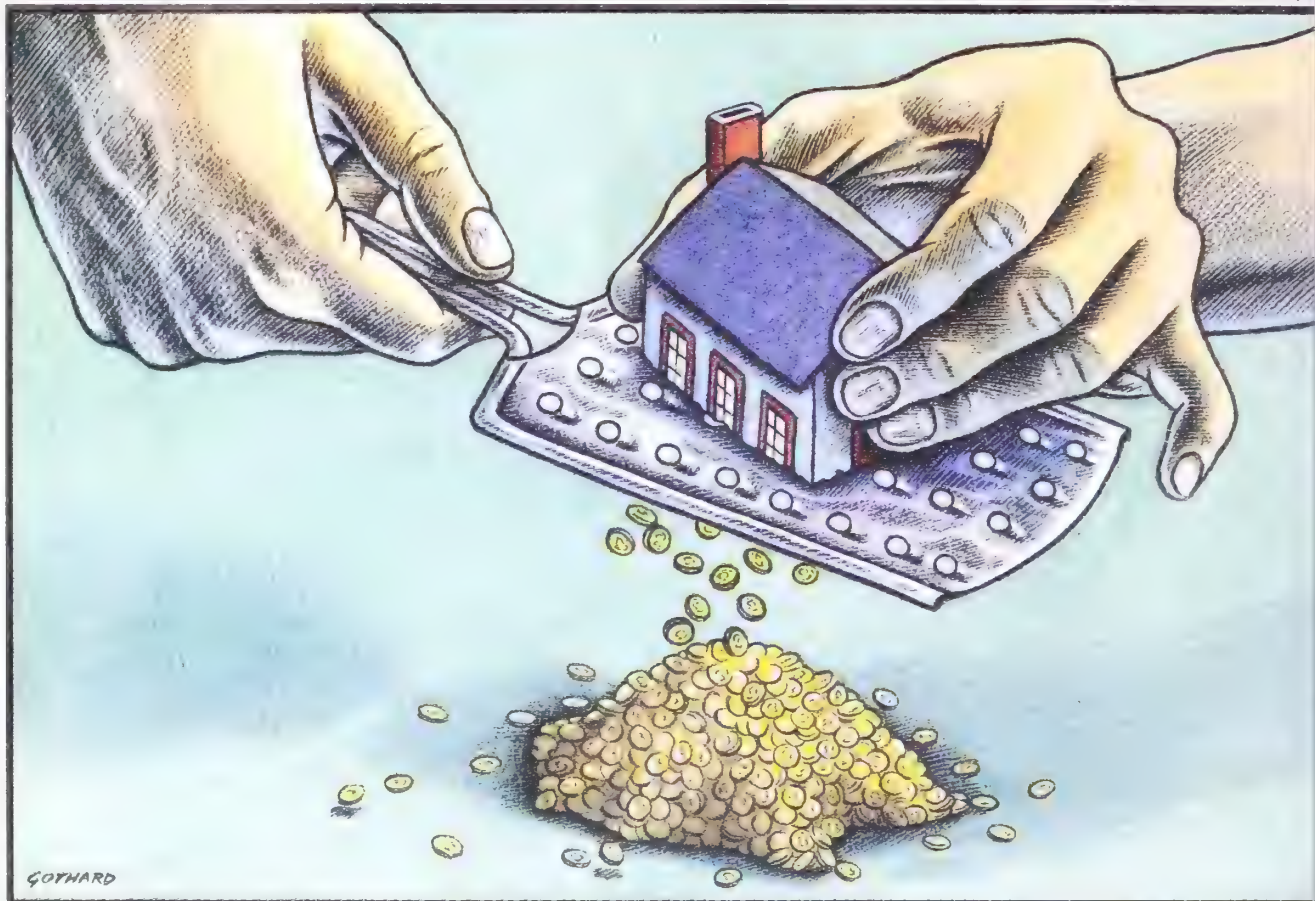
Frankfurt. It now operates a major hub there. Germany also wants limits on airlines operating under Chapter 11. France wants similar measures, plus a cap on the number of U.S. airlines—something Britain won 15 years ago. The French claim that has helped British Airways PLC stay in the black in recent years. Most other EC carriers are losing money.

Instead of pressing such demands separately, Europe's governments should negotiate a joint treaty with the U.S., say EC officials. Although that may happen one day, European nations are still too far apart. The free-market British and Dutch want totally open skies, while most other countries cling to protection.

Over the long haul, globalization is "an economic trend that can't be reversed," says Cyril Murphy, vice-president for international affairs at United. But for the next few years, U.S. carriers may have to scale back their ambitions.

By Stewart Toy in Paris, with Seth Payne in Washington and bureau reports





'IT'S LIKE BEING ON THE EDGE OF A PRECIPICE'

Home-equity loans are making many borrowers, regulators—and even some banks—nervous

When Carol and Daniel Thalimer found bankers unwilling to provide them with a small-business loan to expand their travel agency several years ago, the couple turned to the next biggest source of cash they could think of—their home. The four-bedroom house in Roswell, Ga., an upscale suburb north of Atlanta, had appreciated 36% over the years and was worth \$136,000. Bankers didn't hesitate to advance the Thalimers a home-equity loan of \$45,000.

Nowadays, the Thalimers, and many other families, have come to regard their home-equity loan with very mixed feelings. After selling the travel agency in 1988, the Thalimers didn't have enough

money to pay off the loan. And with their income reduced now that Carol is a free-lance writer while Daniel writes user manuals for a computer software company, it's a struggle to come up with the monthly \$525 for the first mortgage and the additional \$725 for the home-equity loan. Recently, they turned to a debt counselor for help. "It's like being on the edge of a precipice," says Carol. "If anything goes wrong, or any unexpected expenses pop up, it's all over. We'll lose the house."

Spurred by the 1986 Tax Reform Act, home-equity loans are widely regarded as a great deal for banks and borrowers. Although Congress phased out interest deductions on most consumer credit, in-

terest on home-equity loans remains deductible. For popular home-equity lines of credit, or HELs, interest on borrowings of up to \$100,000 is deductible. And the cash can be used for any purpose, from auto purchases to vacations. Growing at an average annual pace of 10%, balances on revolving HELs stood at an estimated \$132 billion at the end of 1991. In all, second mortgage debt totaled \$357 billion.

NO NEST EGG. Yet it's becoming increasingly clear that the home-equity phenomenon has an ominously dark side to both lenders and borrowers. Although delinquency rates remain low, thousands of families like the Thalimers may be barely keeping up their loan payments.

ebt counseling services in various regions say consumers with home-equity loans have begun showing up in greater numbers.

This could prove troublesome to the already sputtering recovery. It was widely believed that consumers were reducing debt levels. And once they were better financial strength, households could spend more, giving a badly needed boost to the economy. But Robert W. Johnson, senior research associate at Purdue University's Credit Research Center, believes the improvement in consumer balance sheets may be exaggerated in part because of the use of home-equity loans. "I think consumers are merely changing the form of the credit they use," he says.

Critics, further, have begun questioning the long-term wisdom of loading more and more debt on the U.S. family's biggest asset. Homeowners controlled nearly 70% of the equity in their homes in 1983. But owing to a combination of falling real estate values and increased mortgage borrowing, that ownership was down to 55% by 1991 (table). Those houses won't be there as a nest egg for retirement," says economist A. Ry Shilling.

Lenders also have good reason to worry. "It's conceivable that banks are holding loans for more than what the house is worth," says Federal Reserve Governor John P. LaWare. Banks and regulators, who used to regard home-equity loans as impeccably safe, are starting to take a much closer look at collateral values. Lenders may eventually have to renegotiate terms on many existing loans. Despite these concerns, home-equity loans, chiefly HELs, remain wildly popular.

Michael Roy, who oversees home-equity lending for San Francisco-based First Nationwide Bank, a subsidiary of Ford Motor Co., says these loans are running 30% above last year's volume. "The home-equity line is the product of choice," he says.

Lenders are hawking HELs at variable rates of just 1.5 to 2 percentage points over prime, and promoting new uses. NationsBank Corp. in Charlotte, N.C., is planning to expand a "Tax Smart" auto loan secured by a lien on the borrowers' home. Only 28% of borrowers used their HELs for home improvement in 1991, according to the Consumer Bankers Assn.

The anemic economy has set many experts to thinking whether home-equity loans are far less secure than popularly believed. "I've heard of isolated incidents where people use their home-equity line as a form of unemployment insurance," says the Fed's LaWare.

Fueling the suspicion that trouble is brewing is the lack of hard facts on HELs. The Federal Deposit Insurance Corp. began tracking HEL delinquencies only last year. At the Fed, most data on HELs are lumped into overall mortgage figures. "It's hard to get good numbers," says economist David Wyss of DRI/McGraw-Hill. "Even the banks don't track them as closely as we would like."

As a result, the official figures showing low delinquency rates on home-equity

loans are being questioned. Many HELs have easy payment terms. Some require minimum monthly payments as low as \$100. "What worries me," Wyss says, "is that people may be using their lines just to pay their interest."

Problems have already begun to crop up in certain regions, such as the hard-pressed Northeast, which accounts for

38% of HEL balances at banks. First-quarter delinquencies at Providence-based Fleet/Norstar Financial Group Inc. were running at 5% on fixed-rate second mortgages and 2.5% on HELs—more than twice the national norm. Fleet believes its problems have peaked. In California, Citicorp says delinquencies stand at 2.6%. Citi says its portfolio is still performing well, but the bank has begun drive-by appraisals to

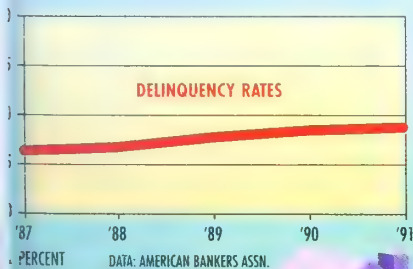
check on home values and annual loan reviews on some accounts. And David A. Brooks, head of Citi's West Coast consumer lending operation, confesses to some trepidation. "The big unknowns are how long the recession will last and what will happen to real estate values," he says.

STUBBORN. Even if the recovery gains steam, home-equity loan problems could fester. Unemployment, especially among white-collar workers, the biggest HEL users, will likely remain stubbornly high. Moreover, it takes time for the benefits of any economic expansion to filter down to households. After the 1982 recession,

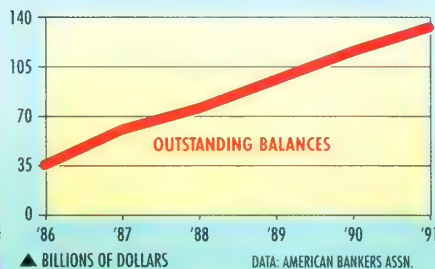
**HOME-EQUITY LINES
OF CREDIT TOTAL
\$132 BILLION—AND
MUCH OF THAT HAS
BEEN USED NOT FOR
HOME IMPROVEMENT
OR EDUCATION BUT
FOR CARS, BOATS,
AND VACATIONS**

TROUBLE AHEAD FOR BANKS AND BORROWERS?

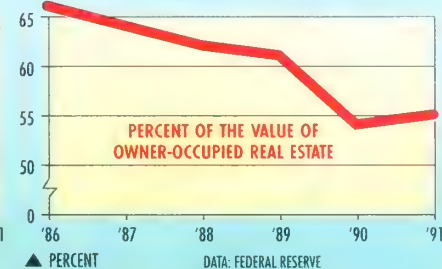
HOME EQUITY LINES SEEM SAFE SO FAR...



...BUT LOAN VOLUME IS SOARING...



...WHILE HOMEOWNER EQUITY IS PLUMMETING



second-mortgage delinquencies didn't peak until 1985. Because home-equity lines are a relatively new product, economists aren't sure how delinquency rates will run. Says Susan Sterne of Economic Analysis Associates in Stowe, Vt., "What will happen? It's a big question."

Especially vulnerable are consumers who use HELs for debt consolidation, to pay off expensive credit card and auto loans. True, that reduces their interest tab. Unfortunately, many homeowners don't have enough discipline to restrain their buying habits. Before long, debt counselors say, they are out using their credit cards again. "Based on our experience, fully 75% of all people who use their home value for debt-consolidation loans find themselves twice as indebted within two years," says Katie M. Shern, education director for the Consumer Credit Counseling Service of North Georgia.

Perhaps a more pressing concern to regulators is the value of the collateral securing home-equity loans. Over the past couple of years, lenders have tightened standards. But in the competitive frenzy of the late 1980s, when a collapse of real estate prices seemed inconceivable, bankers relaxed limits on the amount of money they were willing to advance. Loan amounts, including the first mortgage, often equaled 85% of the value of a borrower's home, leaving a thin 15% equity cushion. But that margin has vanished for many homes, especially expensive ones.

A CRACKDOWN? To forestall the possibility that home-equity loans may become yet another in a long string of lending disasters, regulators have stepped up pressure on bankers to review their portfolios. Attorney Charles F. Byrd, a specialist in regulatory law, predicts a more vigorous crackdown. Ultimately, he believes bankers may be forced to restructure terms with many homeowners whose houses have significantly dropped in value or whose income has dwindled. Some lines could be curtailed.

While that may put bank balance sheets in order, household balance sheets may continue to weaken. For several generations, home ownership has been a form of forced saving. Retirees could support themselves by cashing in on the steady appreciation of the value of their homes. But the continued

growth of home-equity borrowing—coupled with, at best, moderate gains in home prices for the rest of the decade—could mean continued shrinkage in Baby Boomers' equity stake in their homes. Signs of that loss of wealth are already visible. Many homeowners can't afford to trade up to larger homes because they lack sufficient equity for a downpayment. In some regions, home-equity loans "have tended to freeze people in place," says John A. Tuccillo, the chief economist for the National Association of Realtors.

Growing signs of the worrisome drawbacks of home-equity loans have provoked debate over curbs. Some consumer advocates say using tax-deductible HELs to buy cars or take vacations defeats the 1986 Tax Reform Act's goal of eliminating interest deductions on consumer loans except for home mortgages. Congress, too, is concerned.



AGAINST THE GRAIN: TEXAS' DANBURG FIGHTS A BAN ON HOME-EQUITY LOANS

And it discriminates against people who don't own homes. By September, the General Accounting Office is due to release an extensive study on how home-equity loans are used and how much revenue they cost.

Still, don't expect any reform during the current election year, and possibly beyond. Limiting deductibility for taxpayers is fraught with political peril. So advocates of home-equity loans also say the government has no right to tell consumers how to use the value locked in their homes. "They should be able to access that equity based on their needs," says Debra Danburg, a member of the Texas legislature. Danburg is leading a campaign to change provisions in the Texas constitution that limit the use of home-equity loans to home improvements and tax payments.

Still, the final solution doesn't lie with lawmakers, or for that matter, bankers. In the end, the question is whether homeowners will be able to discipline themselves and do a better job of protecting their most valuable asset.

By John Meehan in New York, with Mark McNamee in Washington, Chuck Hawley in Atlanta, Alice Cuneo in San Francisco and bureau reports

MARKETS

WALL STREET'S GREAT PR WAR

NASDAQ and the NYSE take the battle for investors to the airwaves

On Wall Street, appearances can be misleading. Take the New York Stock Exchange. That 89-year-old, faux-Roman temple at Broad and Wall seems to be, well, a place to trade stocks. But "it's not just a place," the NYSE is pointing out in its new TV commercials, it's "a way of doing business." NASDAQ, meanwhile, is fighting a persistent rumor that it is the computerized trading system for over-the-counter stocks. OTC stocks? Heaven forbid: NASDAQ is "The Stock Market for the Next 100 Years."

Silly? No—it only seems that way. In fact, such semantic posturing is serious business to the Big Board and archrival NASDAQ, the stock-trading system operated by the National Association of Securities Dealers (NASD) in Washington. NASDAQ and the Big Board are in a war—and not only a competition—for listings that has seen the NYSE make significant strides in recent years. The

two rivals are also intensifying their struggle against a less tangible enemy: what they contend to be unfair public perceptions.

MISUNDERSTOOD. It's a battle that's being fought in the trenches of the investment world—newspaper stock tables as well as over the airwaves. The NASDAQ recently began broadcast advertisements for the first time in its history aimed at showing, among other things, that the NYSE is as high-tech as NASDAQ. Meanwhile, NASDAQ is striving to spruce up the word that, among other things, is as respectable as the NYSE—and it has gone so far as to jawbone brokerage firms to abandon the term "over-the-counter," which NASDAQ abhors.

Both NASDAQ and the NYSE agree on one thing: They are terribly misunderstood. "I think there's a real lack of knowledge out there about auction markets and dealer markets and the differences between the two," complains a



**'I THINK THERE'S A
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KNOWLEDGE OUT
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AND DEALER MARKETS
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**WILLIAM DONALDSON
CHAIRMAN, NYSE**

ard Chairman William H. Donaldson. very few people know what [the NYSE] other than a building in New York." d if NASDAQ has its way, that's about anyone would ever want to know. erts NASDAQ President Joseph R. rdiman: "We are clearly positioning NASDAQ National Market System to a viable competitive alternative to the w York Stock Exchange."

he NYSE's radio and TV ads are, thetically at least, similar to the NASDAQ mercials that introduced the slogan e Stock Market for the Next 100 ars." But the NYSE ads note that it a human interlocutor missing at SDAQ—the specialist on the exchange r. "Our computer system is one of most advanced in the world," intones narrator, actor Leonard Nimoy .yet even all our technology still 't do what people do better than computer—negotiate the best price you."

he "you" in this ad is the small inves— who is responsible for only a small etion of Wall Street trading volume adays. But Donaldson and NYSE sident Richard A. Grasso maintain t the ads are on target. Even though SE trading has long been dominated institutions, they note that individuals l provide the NYSE with much-needed idity. "My very strong view is that ore participants you have, the bet-markets you have," notes Donaldson. nother rationale for the NYSE ad paign would be that it counteracts SDAQ's two-year-old broadcast effort. : Grasso and Donaldson say that any ilarity between the two is purely co- dential. In any event, the NYSE's pub-relations challenge pales beside the facing NASDAQ, which is still distanc- itself from the notion that it harbors

sleazy penny stocks. NASDAQ officials note that the worst penny stocks haven't traded on NASDAQ at all but have appeared in the "pink sheets" or their successor, the OTC Bulletin Board.

On June 15, NASDAQ took one significant, but little heralded, move to exorcise the penny-stock demons that haunt its public image. The NASD expanded considerably the requirement that NASDAQ market makers report all trades within 90 seconds, bringing it into line with the NYSE. That has long been a requirement for the 2,700 securities in NASDAQ's National Market System, which include a number of large- and medium-capitalization stocks. Such real-time trade reporting has now been extended to the 1,400 NASDAQ companies that are too small to qualify for the NMS.

Until June 15, market makers were required to report only the final bid and ask price quotations for the non-NMS stocks. This move means that only OTC Bulletin Board stocks are not subject to real-time trade reporting.

CHANGING NAMES. The real-time reporting rule has resulted in a change in newspaper stock tables that is right in line with NASDAQ's agenda. Since closing-price and volume information is now available, newspapers are opting to report that in lieu of bid and ask quotations. Those quotes didn't always reflect real prices, and they also made NASDAQ listings look different from the exchange and NMS listings. But this is not necessarily a change for the better. The spreads of the most thinly traded stocks tend to be very wide—and spread information is often more useful than last-sale prices, notes John Markese, research director of the American Association of Individual Investors.

Of course, bid and ask quotes are still available to anyone who wants to call his broker—and the broker can always call the OTC trading desk to be sure. Oops! "The sign over my desk says 'NASDAQ trading,'" notes Joseph Loftus, a Lehman Brothers Inc. senior vice-president who heads what was known, until recently, as the NMS/OTC trading desk. NASDAQ officials are pleased—and would very much like other industry execs to follow suit. "I think it's going to be a very long sale," sniffs Binkley Shorts, manager of the Over-the-Counter Securities Fund. "It's still a bid-ask, dealer market. So as far as I'm concerned, the term OTC is accurate." Perhaps. But "Stock Market for the Next 100 Years" sounds a whole lot prettier.

By Gary Weiss in New York, with Dean Foust in Washington

**'WE ARE POSITIONING
THE NASDAQ
NATIONAL MARKET
SYSTEM TO BE A
VIALE COMPETITIVE
ALTERNATIVE TO THE
NEW YORK STOCK
EXCHANGE'**

**JOSEPH HARDIMAN
PRESIDENT, NASDAQ**



TOP: H. BOTTOM: PHOTOS: JAMES B. FORTI/THOMAS • ATHERTON/AMERI

BY GENE G. MARCIAL

WHY MAC FRUGAL'S MAY BE HEADED FOR RICHER TIMES

To some smart-money pros, Mac Frugal's Bargains Close-outs is one of the biggest, well, bargains, on the Big Board, where the stock is now changing hands at \$12 a share. No, Mac Frugal's isn't a retailer of down-and-out stuff. It's the new name of Pic 'N' Save, which owns and operates 193 retail outlets selling merchandise from well-known manufacturers at 40% to 70% below regular prices.

The stock was a highflier in 1991, jumping from 6 to 23, when an investor group called Girard Partners successfully waged a proxy fight to oust management. "It could climb back up to the mid-20s," says one investor, who is now buying heavily. He had accumulated shares during the proxy battle and then sold them, he says, when the stock hit 20.

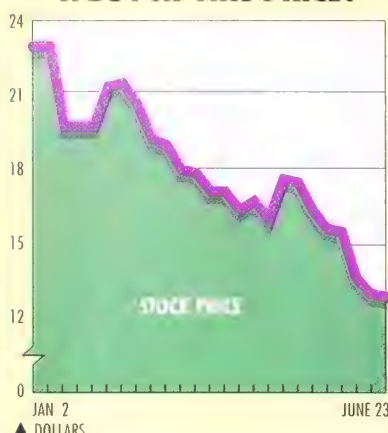
The heavy cost of the proxy battle, the restructuring that followed, and a weak economy hurt first-quarter earnings, sending the stock price into a spin. This investor notes, however, that with the restructuring now complete and a strategy of new-store openings, Mac Frugal's "will beat the Street's currently poor earnings expectations."

WESTWARD HO! Analysts Allan Roness and Stuart Linde of Fahnestock, a New York securities firm, agree. They note that in the first half of 1992, Mac Frugal's completed the last phase of its reorganization by hiring 100 store managers with extensive retailing experience. They add that Mac Frugal's will be able to purchase new sites at modest prices because of depressed real estate in the company's core Arizona, California, and Texas markets. The "timing appears right" for a more rapid expansion, say the analysts.

They point out that while the riots in Los Angeles damaged six of the company's 64 stores in Southern California and cut May revenues for the entire company by 4.9%, the disturbances caused other retailers in the area to close down. "This gives Mac Frugal's an opportunity to buy property and expand in the area," says Linde. The plan now, he says, is to add 37 new outlets, most of them in Southern California, thereby increasing the number of stores to 230 by 1993.

Roness and Linde say that based on

MAC FRUGAL'S BARGAINS: A BUY AT THIS PRICE?



DATA: BRIDGE INFORMATION SYSTEMS INC.

earnings, book value, cash flow, and revenue growth, Mac Frugal's stock is selling way below the shares of such comparable discount retailers as Consolidated Stores and Dollar General. They estimate that Mac Frugal's will earn \$1.55 a share in 1993, up from 1992's estimated \$1.25 and 1991's \$1.12. Eileen Hupp, Mac Frugal's spokeswoman, says that those numbers are conservative.

DIGGING INTO A LATIN OIL PLAY

The hottest oil-exploration area these days is in Colombia, where huge discoveries have been made by the likes of British Petroleum and Triton Energy. To participate in this new oil play, the shares of the oil majors aren't the way to go, says Alan Gaines, president of Gaines, Berland, a New York securities firm that invests in energy companies.

Gaines has been snapping up shares of American International Petroleum, a small company engaged in oil and gas exploration mainly in Colombia. Its major assets include four exploration and production contracts in Colombia covering 1.4 million acres and a 30,000 barrels-per-day refinery in Lake Charles, La. It also explores and produces oil and gas in Kentucky and Louisiana.

AIP stock hasn't been flying, however. It's trading over the counter at 2% a share, off from 3% in April. Part of the reason: AIP recently sold 3.5 million shares in Europe and Asia at \$3 a share, raising \$10.5 million. AIP will use the funds for seismic exploration and drilling in Colombia.

AIP plans to dig 17 wells by the end of this year, mainly in the Toqui-Toqui Field and the Puli Anticline. Alan Gaines says the company is the fourth largest holder of exploration acreage in Colombia, after Royal Dutch/Shell, Texaco, and Occidental Petroleum. "The downside risk in owning AIP appears minimal, and the upside is potentially exponential," he says.

Rik Parkhill, research director at Deacon Barclays de Zoete Wedd, a Toronto affiliate of Barclays PLC, is also high on American International. He figures the company's existing oil and gas reserves in Colombia alone are worth \$3.40 a share. "Over the next year, its Colombia exploration could double AIP's oil and gas reserves," he says. "The stock is worth twice its current price."

INTEREST PILES UP FOR A CARPETMAKER

There's nothing that sends a stock tumbling faster than the news that a big stakeholder is bailing out. That's what happened to Horizon Industries, a maker of residential and commercial carpets.

In May, Ed Ralston, who held a 7% stake, said he would sell his holding, when the stock was trading at 12 1/2 share. The company was once being eyed as a buyout target of carpetmaker Beaulieu of America, which holds 10% of the stock. By June 1, Ralston, who was buying along with Beaulieu, had cut his stake to 4.5%. The stock is down to 7 1/2, and Ralston isn't through selling yet.

It isn't known whether Beaulieu, a subsidiary of a Belgian carpetmaker, will follow suit. But that added risk hasn't discouraged investment manager Jim Awad, who is buying up shares. Awad is convinced Horizon is a bargain at its current price, based on the earnings turnaround he sees and the intrinsic value he puts on the company. "The stock is worth at least 13 a share," he says. Awad figures that Horizon, which was in the red in 1990 and 1991, will post revenues of \$350 million next year, vs. this year's estimated \$318 million, and earnings of 90¢ to 95¢ a share next year, up from 70¢ this year.

Awad is betting that with the drop in the stock's price, management will opt to repurchase shares. He also suspects that the takeover interest in Horizons by no means over. Horizon Vice-President Barbara Lance declined comment on the speculation.



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A NIGHTMARE YEAR FOR JAPAN'S BANKERS

They're reeling from the real estate bust and losing ground fast

Poor Mitsui Trust & Banking Co. It's one of Japan's most respected lenders and a cornerstone of the giant Mitsui industrial *keiretsu*. Yet the \$169 billion lender has seen the price of its shares plunge 25% in Tokyo's latest stock market rout. At \$6 apiece, Mitsui shares are now down an astonishing 80% since 1987. The problem? Collapsing property prices. As speculator after speculator has gone bust, Japan's big lenders are taking a pasting. "Real estate?" asks Robin Monro-Davies, managing director of the credit-rating agency IBCA Ltd. "It's spectacularly bad."

From Nagoya to New York and Stockholm to Sydney, many hard-pressed

pire, with its \$12 billion in bank debt, while also struggling to overcome the crippling effects of massive domestic property losses and a crumbling stock market. As many as 10% of the loans at some Japanese banks may now be in trouble. Some analysts believe the industry's bad credits could total \$230 billion—or even twice that.

One acute problem for banks is the spiral of failures among finance companies, which turned copious bank credit into an astonishing \$800 billion in loans during the 1980s. Many of the loans went to buy real estate, which then was used as collateral for even more credit from banks or other finance groups.

den reserves" have disappeared. If the Nikkei falls below 12,000, IBCA estimates, the world's biggest lender, Dai-ichi Kangyo, as well as No. 2 Sumitomo and No. 3 Sakura, will have no hidden reserves left at all.

Even with the Nikkei around 16,000, many Japanese banks already fall short of new international capital standards taking effect in 1993. While a Bank of Japan official insists that "the problem is not an acute one," worried U.S. lenders have already pulled some \$26 billion in deposits out of Japanese banks.

REAL TEST. All of these factors have made Japanese banks more vulnerable than they have been in years to competitive inroads worldwide. Last year, Japan's overseas bank assets actually plummeted 9%, to \$1.9 trillion. If anything, the pullback is picking up speed in 1992. "There's a shortage of international banks these days," explains United Bank of Switzerland Vice-President William J. Gasser. "We can pick and choose our business."

One measure of how long the Japanese banks can endure such stresses is their basic ability to generate earnings. BUSINESS WEEK's index of "real bank profitability" indicates just how far behind the Japanese actually are. Country-to-country differences in inflation, interest rates, and capital standards may make some banks' returns on equity—a key measure of earnings power—appear larger than they really are. So the Scoreboard adjusts ROE for these factors to show how well the banks would stack up if they all operated under similar conditions. The Japanese lag badly behind other members of the top 50. And, according to supplemental data prepared by IBCA, they also trail many lenders in the fast-growing markets of southern Asia and Spain, as well as quite a few in the U.S.

Indeed, the U.S. is turning out to be one of the few areas where banking isn't a disaster. With the Federal Reserve keeping short-term interest rates so low that lenders can make money by doing nothing riskier than buying government debt, many banks are cleaning up. In American banks remain the exception. In Finland, Sweden, and Norway, for example, government bailouts are becoming common, as recession and overlapping property values eat away at one bank after another. For the Japanese and many others, sighs Deutsche Bank Managing Board Member Jürgen Kinnert, "there are a lot of nightmares. The nightmares that are yet to come could be even worse."

By William Glasgall in New York, and Ted Holden in Tokyo

THE JAPANESE BANKS TRAIL IN PROFITABILITY...

	Real profitability index*
BANCO POPULAR ESPANOL Spain	1.398
BANC ONE U.S.	1.300
BANCO SANTANDER Spain	1.254
BANCO BILBAO VIZCAYA Spain	1.224
BANKERS TRUST N.Y. U.S.	1.223
NORWEST U.S.	1.218
BANK OF CHINA China	1.217
J.P. MORGAN U.S.	1.216
SUNTRUST BANKS U.S.	1.215
BANK OF TAIWAN Taiwan	1.196

*Based on return on equity, adjusted for differing capital ratios, inflation, and tax rates. Industry average = 1.029

**New international capital standard scheduled for 1993

DATA: IBCA LTD

...AND THE TOKYO CRASH IS ERODING THEIR CAPITAL

Nikkei stock average level where capital is under 8% of assets**
Nikkei = 15,853 (June 24)

SAKURA BANK	18,246
TOKAI BANK	17,145
NIPPON CREDIT BANK	17,403
BANK OF TOKYO	16,972
HOKKAIDO TAKUSHOKU BANK	16,874
FUJI BANK	16,542
MITSUBISHI BANK	15,781
INDUSTRIAL BANK OF JAPAN	15,693
DAI-ICHI KANGYO BANK	15,140
DAIWA BANK	15,142

bankers are singing the same blue tune. Nowhere, however, is this apprehensive mood more apparent than in Japan. As BUSINESS WEEK's International Bank Scoreboard indicates, billions of dollars in bad property loans—the hangover of the go-go 1980s—are taking their toll on the country's mammoth lenders. "1991 was unquestionably the worst year for many banks since World War II," says Monro-Davies. And for many banks, 1992 won't be much better.

As their lending problems mount, Japanese banks are now trailing the world in about every measure but assets. Japan's largest banks are lenders to the Reichmanns' collapsed real estate em-

To stave off big write-downs, many lenders are now scrambling to rescue a number of these finance firms. Mitsui Trust, for instance, was the main lender to Dai-ichi Corp. and a related property developer, which together ran up \$8 billion in loans. To keep them afloat, Mitsui and other banks this spring agreed to slash some debt payments in half and cancel others altogether. The deal will cost Mitsui an estimated \$55 million this year alone.

Also debilitating has been the hit on the banks' unrealized stock market gains, which they're allowed to count as capital. With the Nikkei stock average down 60% since 1989, most of these "hid-

INTERNATIONAL BANK SCOREBOARD

		ASSETS		CAPITAL		PERFORMANCE				MARKET VALUE		
		\$ MIL	CHANGE FROM 1990 %	EQUITY \$ MIL	EQUITY AS % OF ASSETS	NET INCOME \$ MIL	CHANGE FROM 1990 %	RETURN ON EQUITY %	REAL PROFITABILITY	5/31/92 \$ MIL	MARKET TO BOOK RATIO	P/E RATIO
DAI-ICHI KANGYO BANK	Japan	446,881.4	-1.36	15,459.5	3.46	689.5	-7.57	4.52	1.014	34,677	2.3	53.0
SUMITOMO BANK	Japan	428,226.6	-1.09	17,203.6	4.02	909.3	-19.31	5.39	1.025	37,119	2.2	32.8
SAKURA BANK	Japan	421,455.0	-2.55	13,427.2	3.19	609.7	-5.92	4.75	1.015	29,047	2.3	45.9
FUJI BANK	Japan	420,059.5	-0.64	14,679.7	3.49	715.1	-9.61	4.92	1.018	33,991	2.3	47.0
SANWA BANK	Japan	412,788.9	-3.12	14,470.5	3.51	805.4	-5.39	5.69	1.024	30,408	2.1	36.3
MITSUBISHI BANK	Japan	401,327.8	-3.13	13,216.4	3.29	467.4	-31.23	3.58	1.006	39,839	3.0	54.5
NORINCHUKIN BANK	Japan	307,741.8	16.49	1,905.2	0.62	304.9	-11.96	16.70	1.023	NT		
CREDIT AGRICOLE	France	307,203.5	2.40	15,042.1	4.90	986.5	6.64	7.02	1.042	NT		
CREDIT LYONNAIS	France	306,334.9	8.46	9,651.5	3.15	787.3	-10.61	8.57	1.044	4,109	0.6	6.5
INDUSTRIAL BANK OF JAPAN	Japan	303,214.9	-1.21	10,420.0	3.44	448.6	-10.38	4.36	1.013	34,045	3.2	74.1
DEUTSCHE BANK	Germany	288,879.4	12.86	11,497.7	3.98	930.3	32.11	8.42	1.041	20,158	1.9	NA
BANQUE NATIONALE DE PARIS	France	275,876.3	-3.84	9,366.6	3.40	660.6	58.65	7.56	1.036	5,193	0.7	9.6
TOKAI BANK	Japan	252,877.7	-4.31	8,170.1	3.23	384.6	16.40	4.79	1.015	14,590	1.8	36.5
BARCLAYS	Britain	251,052.7	2.39	11,461.2	4.57	538.1	-30.84	4.50	1.000	10,979	1.1	24.7
ABN AMRO HOLDING	Netherlands	242,685.9	5.55	9,344.0	3.85	912.1	12.07	10.02	1.047	6,466	0.8	8.6
LONG-TERM CREDIT BANK OF JAPAN	Japan	241,007.9	6.00	8,187.4	3.40	475.7	69.44	5.94	1.026	14,607	1.8	29.6
SOCIETE GENERALE	France	234,748.3	8.56	6,860.4	2.92	711.6	25.63	11.16	1.059	7,544	1.3	12.1
NATIONAL WESTMINSTER BANK	Britain	222,805.9	1.21	10,328.7	4.64	94.5	-75.47	0.88	0.959	10,498	1.0	NM
BANK OF TOKYO	Japan	219,105.8	-7.22	7,733.5	3.53	332.0	-19.67	4.35	1.013	17,322	2.3	54.8
CITICORP	U. S.	216,922.0	-0.03	9,489.0	4.37	-457.0	NM	-4.50	0.915	6,449	0.7	NM
KYOWA SAITAMA BANK	Japan	212,940.9	-8.24	7,820.9	3.67	285.3	-25.10	3.69	1.008	13,147	3.2	44.4
PARIBAS	France	199,973.9	9.62	11,279.0	5.64	211.8	-73.16	2.06	0.982	NT		
MITSUBISHI TRUST & BANKING	Japan	194,243.9	-3.09	6,417.8	3.30	264.2	-14.81	4.18	1.011	9,896	1.5	36.1
DRESNER BANK	Germany	189,444.5	3.92	6,500.6	3.43	430.0	-29.23	6.67	1.021	7,717	1.3	NA
UNION BANK OF SWITZERLAND	Switzerland	181,905.6	6.59	13,266.0	7.29	911.8	35.08	6.99	1.048	12,257	1.0	14.5
SUMITOMO TRUST & BANKING	Japan	178,325.9	-0.44	6,304.9	3.54	243.1	-29.48	3.91	1.010	9,050	1.4	35.9
IST. BANCARIO SAN PAOLO DI TORINO	Italy	178,078.7	38.38	6,890.4	3.87	773.7	8.11	12.88	1.062	5,857	1.6	13.1
CAISSES D'EPARGNE	France	172,973.0	1.13	7,072.2	4.09	482.6	-10.87	7.17	1.039	NT		
MITSUMI TRUST & BANKING	Japan	168,975.5	-0.86	5,238.2	3.10	186.7	-26.84	3.61	1.006	8,102	1.5	41.7
BANK OF CHINA	China	162,987.4	33.85	9,837.1	6.04	1,533.4	35.25	17.32	1.217	NT		
HSBC HOLDINGS	Hong Kong	160,354.9	7.82	10,405.8	6.49	1,321.1	85.74	13.27	1.074	10,052	1.4	13.7
SWISS BANK CORP.	Switzerland	152,484.8	8.50	9,579.3	6.28	796.0	29.83	8.65	1.062	6,391	0.8	9.3
BAYERISCHE VEREINSBANK	Germany	147,306.3	9.80	3,848.5	2.61	242.5	2.08	6.85	1.016	4,925	1.6	NA
WESTDEUTSCHE LANDESBANK	Germany	146,741.1	11.29	3,360.0	2.29	148.2	298.93	4.45	1.002	NT		
KOMMERZBANK	Germany	146,661.1	5.01	4,493.5	3.06	360.9	-1.81	8.21	1.030	4,161	1.0	NA
DAIWA BANK	Japan	142,289.0	1.96	4,564.5	3.21	237.9	-14.82	5.31	1.020	10,631	2.3	36.6
CHEMICAL BANKING	U. S.	138,930.0	1.97	7,281.0	5.24	154.0	-65.00	2.02	0.984	8,761	1.5	NM
DG BANK	Germany	135,670.2	3.30	3,470.3	2.56	195.3	0.00	5.81	1.010	NT		
NIIPPON CREDIT BANK	Japan	134,098.6	-1.24	4,137.7	3.09	313.1	84.89	7.79	1.037	9,236	2.3	53.6
YASUDA TRUST & BANKING	Japan	130,472.0	-5.03	4,158.8	3.19	174.6	-12.78	4.26	1.011	7,399	1.7	35.6
RABOBANK	Netherlands	126,900.7	7.50	7,612.8	6.00	594.0	4.31	8.12	1.048	NT		
HYPO-BANK	Germany	125,539.8	10.29	3,155.7	2.51	238.1	15.19	7.61	1.022	4,732	1.7	NA
BANCA NAZIONALE DEL LAVORO	Italy	122,929.4	-4.45	5,580.7	4.54	73.8	-24.78	1.55	0.959	NT		
SHOKO CHUKIN BANK	Japan	115,999.2	6.78	3,026.7	2.61	208.5	1.47	7.25	1.028	NT		
BANKAMERICA	U. S.	115,509.0	4.32	8,063.0	6.98	1,123.7	0.78	15.78	1.190	15,578	2.3	9.6
CREDIT SUISSE†	Switzerland	114,116.6	4.07	6,689.0	5.86	689.8	70.31	10.68	1.084	5,855	1.1	8.8
BAYERISCHE LANDESBANK	Germany	111,635.3	10.24	2,830.9	2.54	192.5	66.04	7.77	1.020	NT		
ROYAL BANK OF CANADA (10)	Canada	111,445.4	8.28	6,977.4	6.26	889.9	2.62	14.28	1.136	5,984	1.2	8.2
NATIONSBANK	U. S.	110,319.0	-2.19	6,518.0	5.91	201.9	-66.06	3.06	0.998	11,034	1.8	61.2
TOYO TRUST & BANKING	Japan	110,236.4	-1.45	3,534.1	3.21	136.2	-16.59	3.91	1.009	5,555	1.5	32.7

These data are for fiscal year ended Mar. 31, 1992. Data for all other banks are for fiscal year ended Dec. 31, 1991, unless otherwise designated. †Stock market data are for CS Holding. NA = not available. NT = not traded. DATA: IBCA LTD.



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Developments to Watch

EDITED BY FLEUR TEMPLETON

OLDLY GOING WHERE OIL DRILLER HAS GONE BEFORE



In offshore drilling, companies typically seek oil and gas in reservoirs under specific rock layers. But this summer, in the Gulf of Mexico, a team led by geologists at Columbia University will test a new approach to obtain currently unexploitable oil.

The project, funded with \$32 million from the Energy Dept. and Pennzoil Co., involves drilling "growth faults"—or rock fractures—in oil reservoirs in certain regions. Under the huge weight of sediments brought onstream and deposited on the ocean floor, the hydrocarbons become so highly pressurized they fracture the rock. These faults—not normally a target for drilling—may act as channels for continually migrating oil, says Roger N. Anderson, a Columbia geophysicist. If the experiment proves successful, he says, the approach could be applicable to dozens of deep Gulf Coast oil and gas fields and set off a "whole cascade of fault-zone drilling."

UNFOLD AN LCD AND GIVE TINY COMPUTER A BIG SCREEN

There are various ways to shrink a computer. You can pack chips closer together, substitute integrated circuit cards for disk drives, and even replace the keyboard with a writing tablet. The problem is, what to do about the display? Nobody is staring at tiny letters on a miniature screen.

Japan's Casio Computer Co. may have a solution: liquid crystal displays on ultrathin, flexible film. Fashioned from a new engineering plastic just one-fourth the thickness of today's thinnest LCDs, the new screens are also 10 times lighter and more resistant to bumps and jolts. With further refinement, Casio believes, the plastic could yield screens that can be rolled in half to fit the tiniest palmtops.

Casio's first black-and-white film LCDs should go into mass production next March. They'll be monochrome, 3 by 5 inches, and the image quality will be only slightly worse than existing ones. Initial prices will also be high—about 50% more than other types of screens. But over time, Casio expects to introduce color versions, in larger sizes, and at competitive prices.

IS A NUTRIENT IN MILK HELP SAVE THE BRAIN FROM STROKE DAMAGE?

Babies might not be alone in benefiting from the nutrients in milk. A research team says that a compound found in large quantities in dairy products and some bacteria may help prevent brain damage for stroke victims. Stroke is the country's third leading cause of death, affecting 400,000 victims and racking up \$25 billion in treatment costs each year.

Chemicals in the brain called neurotransmitters normally allow nerve cells to communicate. But when blood flow to a part of the brain is interrupted, as happens in a stroke, the

levels of these chemicals increase dramatically. This causes toxic levels of calcium to flood into the cells, ultimately killing them. Elias Aizenman, a physiologist at the University of Pittsburgh and a member of the team, says the substance—known as pyrroloquinoline quinone, or PQQ—protects neurons from lethal injury in test tubes by keeping out excess calcium. It's hoped that PQQ could have the same effect in humans.

Although PQQ is still years away from human trials, Aizenman says preliminary results in tests on animals given large quantities of the substance are "very encouraging."

A DIAL-TWISTING ROBOT THAT KEEPS TESTING GEAR HONEST

To measure and test the performance of electronic devices, engineers rely on instruments called oscilloscopes. These take precise readings on electrical signals coming from a television, a motor, or telephone switch, and display the results in visible wave form. But the measuring machines themselves need frequent calibrating—a process that requires skilled technicians to verify up to 50 different checkpoints.

Now, using robotics and machine vision, Toshiba Corp. is developing a system that could automate calibration, letting human engineers concentrate on less tedious work. In the system, a robotic hand manipulates the numerous controls on the oscilloscope as a special signal generator feeds in electric signals at a guaranteed amplitude and frequency. Separately, a video camera monitors the read-outs on the display. A laptop computer, which stores specifications for most of the portable oscilloscopes on the market, runs the programs that control the process.

Toshiba says its system spins through an entire calibration in about 20 minutes—as fast as any skilled engineer. Though developed for use at Toshiba's own manufacturing plants, the robo-calibrator may eventually appear on the open market.

SHOW ME A BULLETPROOF LEISURE SUIT, IN PINK

Cheap polyester has transformed the fashion industry, making possible such wonders as permanent-press shirts and lime-green golf pants. Other than its ersatz quality, the material's only shortcoming is that it's not bulletproof. But now, scientists at North Carolina State University are fashioning polyester as strong as steel. As they improve the process, says textile researcher John A. Cuculo, they expect to produce a polyester nearly as strong as Kevlar, the expensive superfiber of bulletproof vests. Polyester consists of lots of long molecules—normally all jumbled up, like tangled ropes. Cuculo and his colleagues have found a way to make more of the molecules line up. As a result, more molecules share the loads put on the fiber, vastly increasing the material's strength.

The new material will be used for bulletproof vests and composite materials in autos and airplanes, predicts Cuculo. The NCSU team is working with Hoechst Celanese Corp. and Allied-Signal Inc. to perfect the fiber.



BIG WORRIES FOR BIG SCIENCE

In a campaign year, Congress finds research budgets easy prey

In a field near the picturesque Texas town of Waxahachie, engineers are digging for secrets of the universe. So far, they've bored a hole 200 feet deep. Just a few dozen feet more, and they can begin burrowing the 54-mile oval tunnel needed for the biggest and most expensive scientific machine ever conceived, the \$8.2 billion Superconducting Supercollider. By 1999, according to the plan, scientists will be able to start smashing protons together in the mammoth particle accelerator, unlocking the deepest mysteries of matter—from the workings of gravity to the shaping of the cosmos.

But this grandiose scheme is colliding with a force even more enigmatic than gravity—Congress. Late in the evening of June 17, the House stunned SSC supporters and science boosters by voting 232 to 181 to kill the huge project. It isn't completely dead yet, since powerful Senators Lloyd Bentsen (D-Tex.) and J. Bennett Johnston (D-La.) are battling to restore the \$650 million needed to keep the project on track. If Congress settles on a compromise, "the thing could still survive, badly wounded," says the American Physical Society's Robert L. Park. But the fight appears so tough that White House sci-

ence officials privately are discussing whether they should just write the whole project off now.

The mugging of the SSC has sent a sobering message far beyond Waxahachie. For the first time in years, a broad array of science projects—from the space station to efforts to boost commer-

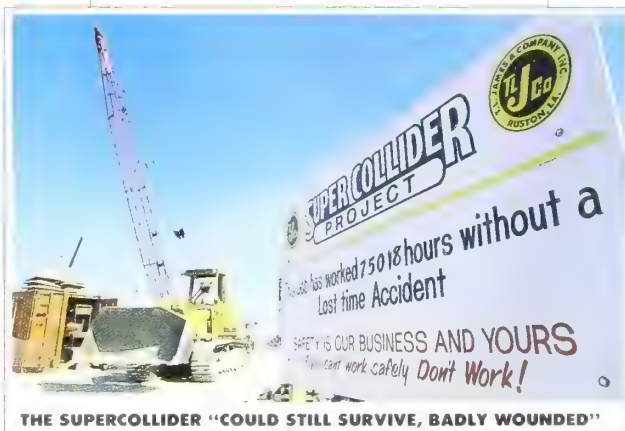
edicare, and other entitlements, especially in an election year. And the current budget rules put Congress in a straitjacket: It can't use cuts in defense spending to hike funds for domestic programs. "It isn't appreciated out in Washington how bad the situation is," says a top Senate science staffer.

As a result, all domestic programs are imperiled, but science is a tempting target at a time when the Los Angeles riots and other problems have put social programs at the top of the agenda. "Can they vote for the supercollider or a space station, and then justify unfunding for education and job training?" asks Representative Howard Wolpe (Mich.), a leader of the anti-SSC camp.

The list of potential science casualties is long. Leon M. Lederman, chairman of the American Association of the Advancement of Science, worries that big projects, such as new space observatories, and even "small" science—grants to individual researchers—are vulnerable. "I think the hit will be across the board."

QUARK BARREL. Bush Administration science officials fear a proposed \$803 million high-performance computing and \$1.5 billion advanced-materials programs won't get the big increases they requested. And proponents of the space station smell blood. Senator Dale Bumpers (D-Ark.), who failed to kill the \$30 billion project last July, says the vote "measurably increases our chances of success this year."

In the scientific community, the space station is widely viewed as an aerospace industry pork-barrel project. But the earlier anticipated cutbacks couldn't come at a worse time, scientists say. Recession has hit university budgets and slowed



THE SUPERCOLLIDER "COULD STILL SURVIVE, BADLY WOUNDED"

cial technology—could be vulnerable to budget-cutters on Capitol Hill. The SSC vote "is a wake-up call to all of us in the scientific community that this year will be very tough," says John D. Holmfeld, executive director of the Council of Scientific Society Presidents.

The problem: Washington has little appetite for halting the explosion in mandatory spending for Social Security,

A COLLISION COURSE OVER BIG SCIENCE

The White House wants hefty increases for science and technology
But the soaring budget deficit and ever-rising costs of entitlement programs
may force Congress to kill or scale back ambitious projects, including:

SUPERCONDUCTING SUPERCOLLIDER

\$8.2 billion atom smasher designed to unlock basic secrets of the universe

\$650 MILLION 34% increase*

SPACE STATION FREEDOM

NASA's \$30 billion station due to house astronauts in orbit by the year 2000

\$2.25 BILLION 11% increase*

ADVANCED TECHNOLOGY PROGRAM

Commerce Dept. effort to fund such commercially important technologies as robotics and materials

\$68 MILLION 36% increase*

HIGH-PERFORMANCE COMPUTING INITIATIVE

Multi-agency project to improve computing and create an "information superhighway"

\$803 MILLION 23% increase*

*PROPOSED 1993 BUDGET AND ITS CHANGE FROM 1992 APPROPRIATION

DATA: OFFICE OF MANAGEMENT & BUDGET, BW

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federal spending, tightening the screws on a community accustomed to big annual increases. And scandals over the misuse of federal research dollars at universities such as Stanford and allegations of misconduct in prominent labs have hurt science's image.

Given the crunch, Lederman worries that new fields of discovery may be neglected and that the best and brightest students will turn their backs on science. That could be prevented, says Frank Press, president of the National Academy of Sciences: "The difference between supporting science well or poorly is only three or four billion dollars a year."

Despite the gloom, this year's budget-cutting fervor may actually help some science and technology programs. By axing the space station, lawmakers would free \$2.25 billion. Without the station, the National Science Foundation could get a hefty increase and NASA could fund worthier space science missions, says Representative Bill Green (R-N.Y.), the ranking Republican on the space and science appropriations subcommittee. Similarly, the demise of the supercollider would make it possible to upgrade particle accelerator facilities at Stanford and Fermilab in Batavia, Ill., currently America's premier high-energy physics labs. They still wouldn't match the SSC's power, though.

'STRANGE DYNAMICS.' Lawmakers say the SSC vote was about more than just science, however. It came after a battle over whether to tack a balanced budget amendment onto the Constitution. Many on the Hill felt they could do the job without the amendment. "Unfortunately," says Bentsen, "the SSC came into the cross hairs on the first day of hunting season." Some also wanted to chastise the Texas delegation for pushing the balanced budget amendment while supporting spending billions for a huge local project—the SSC. "I don't know if those who say the vote is a harbinger know all the strange dynamics," says Gregg Ward, Assistant Secretary for congressional affairs at the Energy Dept.

Still, the grim budget realities won't go away. Unless it changes the rules to funnel defense dollars to civilian use, Congress will have to start slashing somebody's cherished projects. It's unlikely those will include entitlements such as Social Security or Medicare. "It's still not clear if Congress is willing to make any really tough decisions," says Representative Robert S. Walker (R-Pa.), of the science committee. Rather than angering millions of constituents, lawmakers are more likely to cut off a few thousand physicists or biologists. The politics of reelection, predictably enough, may take precedence over investing in new knowledge.

By John Carey in Washington

Information Processing

COMPUTERS



MICHAEL DELL: HIS COMPANY'S SHARES FELL 25% ON NEWS OF PRICE CUTS

'THIS IS NOT A FUN BUSINESS TO BE IN RIGHT NOW'

As PC makers of all sizes slash prices, it's shakeout time...again

Long ago, the personal-computer industry changed from a freewheeling world of garage-shop entrepreneurs to a complex, \$80 billion-a-year industry. But one holdover from the early days was an ever-present zone under what executives called the price umbrella. This umbrella, set up by IBM, Compaq, and Apple, was the relatively high prices charged by the major players that allowed upstart, low-overhead vendors to sell computers for 20% to 30% less.

Now, the umbrella is collapsing, and computer makers are bracing for the aftermath. Instead of just following the clone makers' moves, the top players are prepared to take the lead in cutting prices. The result: an industrywide shakeout that could eliminate hundreds of clone makers. "There are 500 suppliers—and 450 shouldn't exist," says Intel Corp. President Andrew S. Grove.

As Bear, Stearns & Co. analyst Andrew Neff puts it: "This is not a fun business to be in right now." Like other analysts, Neff has scaled back earnings projections for PC makers. He has also launched a regular report called *Shakeout Watch* that lists the already departed and those on deathwatch.

Shakeout fears have been building for

a year. With too many players seeking a slice of the slowing PC market, price cutting had already more than doubled from the normal 15% annual rate. But the fears became more vivid on June 1, when Compaq Computer Corp. decided to outdo clone makers with a new line of PCs priced from \$899. Wall Street reacted swiftly: Compaq shares dropped 15% to \$25. Shares of Dell Computer Corp. fell a prime target of Compaq—plummeting 25%, to \$15.75, three days later, when analysts warned that price cuts might jeopardize its usual 6% net profit margins. Dell also joined a half-dozen other computer makers, including Toshiba, Hyundai, and Acer, in cutting prices in reaction to Compaq's move.

CASUALTIES. The squeeze may be just beginning. Chief Executive Eckhard Pfeiffer warns that "in a month or so we'll be calling you back" for more price cuts. IBM is also joining the fray, halving PCs on 800-number phone lines in the U.S., selling an Asian-built clone in Europe, and promising a new line of low-priced PS/2s this fall. Meanwhile, Apple Computer Inc., which hiked its market share to 19% last year from 11% in 1989 after slashing prices, plans new \$1,000 Macintoshes this fall.

Who will survive? Only companies with lots of cash, low operating costs, and the guts to live through a protracted price war. With prices dropping as much as 40% a year and shipments inching up by 8%, revenue growth will be flat at best, according to International Data Corp. Already, Philips subsidiary Magnavox, KLH Electronics, and Goldstar have exited the U.S. market this year. Money-losing Northgate Computer is being out to Everex Systems for just \$5 million, and mail-order supplier Zeos International Ltd. lost money in the first quarter. And Packard Bell Electronics, mixed an initial public offering because it couldn't get its asking price. The most vulnerable companies are the hundreds of no-name clone makers with less than 1% market share.

If this sounds like déjà vu, that's because it is, sort of. In 1985, the PC industry went through a similar shakeout after IBM decided to stop clone makers—particularly Compaq—from grabbing market share. IBM slashed prices and expanded its dealer network. Within a year, dozens of companies were gone. Back then, it was IBM on one hand and a bunch of very small companies on the other,” says Marc Schulman, an analyst with UBS Securities Inc. “This time, the competition is much better financed, so the war could last a lot longer.”

FACT APPROACH. Indeed. AST Research co-founder Thomas C. Yuen says his company is bracing for a three-year upheaval. He ticks off the factors: overcapacity, many strong players with lots of money, a determination to sacrifice margins for market share, and a perpetual influx of newcomers from Taiwan and South Korea. “The significant players are not going to have a total failure, like Krupczyk. We also won't see anyone pick up major market share,” says Yuen. “We have come to the conclusion that no one is willing to concede.”

So, if no one will concede, what will it take to play? Low prices are a given. After that, there are a lot of theories. Compaq says its brand name will again clear the clout. After all, if PCs cost the same, why buy Brand X? Tandy Corp. says there's already a shift to brand names at its Computer City superstores. “It happens in every other commodity business, including soap,” says Vice-president Howard Elias. “There's no reason why it shouldn't in the computer business.”

That PCs are now a commodity is undeniably clear. A big reason is that most of the innovation is done at the hardware or software level, leaving little room for PC makers to be both creative and price-competitive. As a result, “the companies that count on technology will be in the most trouble,” says analyst Aaron Goldberg.

Instead, marketing will be a critical factor. To attract the customer's attention, PC makers must throw in more features and jump into new distribution channels, such as mail order, warehouse stores, or mass-merchandise chains.

That's why so many PC makers are getting into direct sales, the marketing method that made Dell an \$890 million company in just six years. Dell made mail order respectable in the eyes of major corporations, which put the squeeze on Compaq. Now that Compaq is squeezing back, founder Michael S. Dell says he's not rattled. “They've

of its own components, IBM has the opportunity to control costs and quality. Compaq also has invested heavily in manufacturing. Dell claims highly efficient assembly plants, although it makes few of its own components.

PUBLIC PAIN. Packard Bell has already discovered the problems that can crop up when a company depends too heavily on subcontractors. In the prospectus for its aborted IPO in January, the company disclosed that although gross sales grew 35% in 1991, to \$820 million, net sales were 17.5% lower because so many machines had been returned—an ominous

WHERE THE PC MAKERS STAND



386SX-20MHZ
\$3,245

MANUFACTURING The most vertically integrated PC maker, IBM builds most components itself, including microprocessors, memory chips, and disk drives

DISTRIBUTION/MARKETING Large direct sales force and traditional computer stores. Branching out into mass merchandisers, mail order



PROLINEA
386SX-25MHZ
\$1,415

MANUFACTURING Compaq builds its own boards and monitors

DISTRIBUTION/MARKETING Traditionally sold through dealer channels, now moving into computer superstores, mass merchandisers. Strong reputation for support and service



BRAVO 3V
386SX-25MHZ
\$1,740

MANUFACTURING Builds its own boards at company-owned plants in Asia. Prides itself on highly flexible manufacturing lines

DISTRIBUTION/MARKETING All indirect sales, with 60% of North American sales via value-added resellers, who sell PCs with specialized software



386SX-25MHZ
\$1,199

MANUFACTURING Buys most components, owns its own assembly plants

DISTRIBUTION/MARKETING Pioneered the direct-mail channel, now has sales force to call on major accounts. In some superstores. Beefing up customer service



386SX-25MHZ **\$1,415**

MANUFACTURING Does no component manufacturing, assembles machines from subassemblies. Components purchased from low-cost suppliers

DISTRIBUTION/MARKETING All telesales and direct mail

Note: All list prices include color monitor, hard disk drive, and at least 2 megabytes main memory

DATA: INTERNATIONAL DATA CORP., BW

come into our ring to play our game,” says Dell, “and we think we know the game much better than they do.”

As Compaq meets it on price, Dell is upping the ante in marketing by adding more customer-support services. At the same time, it's bringing out new models that it says will sell for less than the wholesale prices Compaq charges dealers. And Dell can afford to keep fighting: It has a strong balance sheet, including \$175 million in cash.

The other way to separate winners from losers may be in manufacturing, IBM's strong suit. Because it makes most

indication of possible quality problems.

Packard Bell may be better off staying private, says Ted Waitt, president of Gateway 2000 Inc., a mail-order supplier. In a price war, it's an advantage not to have to answer to Wall Street. Says Waitt: “You can't have all these public companies losing money continuously.”

That may be true. But even Wall Street understands that, in a lengthy price war, no pain, no gain. So it could be a long time before the PC business is fun again.

By Catherine Arnst in New York, with bureau reports

AT&T IS STRUTTING ITS STUFF IN CONSUMER GOODS

Once a big flop, it now leads in phones and answering machines

Talking to someone on the VideoPhone 2500—the picture phone from AT&T due out this summer—is definitely not like talking face to face. The colors are faint, the motion is intermittent, and the lip sync is miles off. When someone laughs, fully two seconds can elapse before you see the smile pop onto the person's face. All that for \$3,000 a pair.

Still, knocking the VideoPhone is a bit like criticizing the glissandos of a piano-playing dog; the wonder is that the thing works at all. Every other video system requires expensive, high-capacity phone lines. The VideoPhone 2500 squeezes video signals so much that they can fit over a standard line—just plug it in and start making calls.

LOADED PIPELINE. The equally surprising thing about the VideoPhone is that American Telephone & Telegraph Co. could pull it off. Even with its drawbacks, it's a symbol of the phone giant's remarkable comeback in consumer electronics—and its intention to take the lead in a new era of products. Kenneth M. Bertaccini, president and CEO of AT&T Consumer Products, calls it "step one" in an effort to blend computers, phones, and consumer electronics.

Less than a decade ago, Consumer Products wouldn't have been up to such a mission. At the time of the breakup of AT&T in 1984, the 20,000-employee business was flopping so badly that some insiders advocated dumping it. AT&T knew how to lease telephones, not retail them. It didn't have a clue about how to control costs, develop products rapidly, or get space on store shelves. Says Bertaccini: "We were losing lots of money, our customers were leaving us in droves, and our people were in trauma."

This year, by contrast, AT&T is No. 1 in the U.S. market for corded phones, cordless telephones, and answering machines (chart), besting the likes of Panasonic, Sony, and Thomson. Consumer

Products' revenue has grown an average of 18% a year since 1985, says Bertaccini, to a level that analysts peg at around \$2 billion this year. Bertaccini estimates that profit margins are among the highest in AT&T. Casey Dworkin, general manager of Personal Technol-



BERTACCINI SAYS HIS MARKET WILL SOAR TO \$70 BILLION BY 2001

ogy Research, a Waltham (Mass.) consulting firm, calls it "probably one of the great turnaround jobs in the high-tech industry."

Here's how it happened: After Bertaccini was promoted to president in 1986, he moved manufacturing out of the U.S., closed hundreds of Phone Center company-owned stores, slashed the payroll to 14,000, and brought in talented outsiders to manage the business. AT&T now makes answering machines in Mexico, corded phones in Thailand, and cordless phones in Singapore and Indonesia. Such moves cut annual expenses by \$1 billion.

At the same time, Bertaccini tried to wipe out the old AT&T's go-slow attitude. He ordered up team-building exercises such as wilderness treks. And to get AT&T veterans to focus on the bottom line, he instituted performance bonuses. Executives who once earned \$100,000 a year got \$70,000. But if they hit performance goals, bonuses could run as high as \$80,000. Bertaccini split up Consumer Products into strategic business units responsible for particular product lines. And in January, he gave each its own marketing and product-development staffs.

Those measures have protected, even enhanced, the venerable AT&T brand name. It topped all others in a survey this year by rival Thomson Consumer Electronics, according to Robert E. Giordano, vice-president and general manager of Thomson's Communication Products Div. in Syracuse, N.Y. Says Giordano: "I suspect a lot of what they've done to change the old AT&T

EXPLODING MARKET. AT&T is hardly home free. Sony Co. and Panasonic Co. have expanded manufacturing capacity to launch fresh attacks on AT&T's leadership in corded phones. And AT&T has yet to transfer its consumer marketing clout overseas, where its name is not well known. Boosting foreign sales from less than 5% of revenues will be expensive. And the VideoPhone won't have the field to itself for long. Britain's General Marconi Ltd. is developing one that could sell for half the AT&T price and hit the U.S. market sometime next year.

But then, it's no surprise that AT&T Consumer Products faces tough challenges. The wonder is that it has done this well. Bertaccini estimates that a market in which Consumer Products competes, \$8 billion worldwide this year,

will explode to \$70 billion by 2001, thanks to new products arising from the convergence of computers, communications, and entertainment. If Bertaccini can keep his business in the thick of the action, a fair chunk of that \$70 billion could belong to AT&T. Who says you can't teach an old dog new tricks?

By Peter Coy in New York

WHERE AT&T IS NO. 1

ESTIMATED 1992 U.S. MARKET SHARE

CORDLESS PHONES

42.0%

CORDED PHONES

28.7%

ANSWERING MACHINES

33.7%

0 15 30 45
PERCENT

DATA: PERSONAL TECHNOLOGY RESEARCH



CHAIRMAN JOHN McDONNELL: IN COMMERCIAL JETS, THE COMPANY IS "NO. 3 AND FADING"

ONE IS MY CO-PILOT?

Taiwan's waffling is keeping McDonnell in a holding pattern

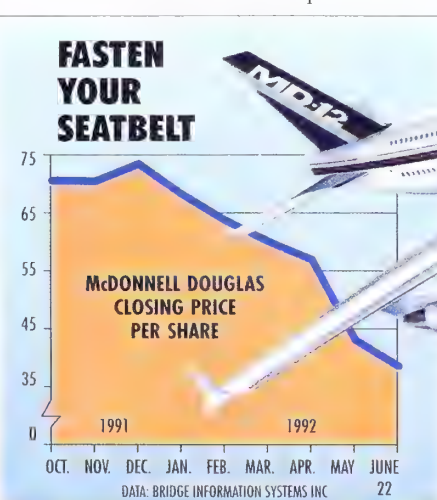
The cover of McDonnell Douglas Corp.'s latest annual report sports a dramatic photograph of five jets from the Navy's Blue Angels in white smoke billowing from their tails as they miraculously pull out of a steep dive. In case you don't get it, a full-page caption drives home the point: "Turning the corner."

The cover is catchy—but more than a little optimistic. McDonnell Douglas, the nation's largest defense contractor, has almost survived the severe cash crunch that almost sent it into a tailspin 18 months ago. But an upward flight path still seems a distant possibility. Its core defense market is shrinking. Its finances are fragile. And it remains to be seen if the company that for so long prospered on its size alone can make the transition to civilian aviation.

NOT CAPITAL. Strategically, Chairman John F. McDonnell is in a corner, not a cockpit. He could radically shrink the company and remain primarily a weapons maker, as General Dynamics Corp. is doing. But that would require sharp management—never McDonnell's strong suit. The company could diversify away from its aerospace core, but diver-

sification has also been a problem for McDonnell Douglas. John McDonnell's dream of building a \$4 billion computer services business, for instance, resulted in \$362 million in losses over seven years before the company threw in the towel in 1989. So McDonnell executives see little choice but to continue targeting commercial aviation, a technology that their engineering-trained managers understand.

What it most needs to pursue that



strategy, however, is money. McDonnell's proposed MD-12 jumbo jet, designed to compete with Boeing Co.'s lucrative 747, is expected to cost about \$5 billion to develop. But the company, which narrowly skirted a liquidity crisis in 1990 as it completed the cheaper MD-11, simply cannot afford to build the new plane without a wealthy partner.

Executives thought they had found one late last year. In November, the government-backed Taiwan Aerospace Corp. agreed to buy a maximum of 40% of McDonnell's commercial aircraft business for up to \$2 billion. But the Taiwanese recently stunned McDonnell by unveiling a radically different second proposal in which any major direct investment would be put off for a couple of years. Within weeks, McDonnell postponed the MD-12's launch indefinitely. Wall Street is shell-shocked. McDonnell shares have plunged nearly 48%, to under 38, since the Taiwanese investment was proposed on Nov. 19 (chart).

PLAYING HARD TO GET. McDonnell officials aren't about to concede defeat, though. They contend that Taiwan's unwillingness to consummate the original deal is a bargaining ploy. "We think they're trying to do a little negotiating in the press," says John D. Wolf, executive vice-president of Douglas Aircraft Co., McDonnell's commercial unit. Taiwanese officials hint there may be room for compromise. Says Taiwan Aerospace Vice-President George K. C. Liu: "It may be that the final result will be a combination of the latest [Taiwanese proposal] and the early proposals."

While continuing its awkward mating rite with the Taiwanese, McDonnell is cutting back current production. It aims to shutter a 2,000-worker parts plant in Torrance, Calif., by next year, and in

June it began a new cost and budget review at Douglas. The likely result: still more layoffs.

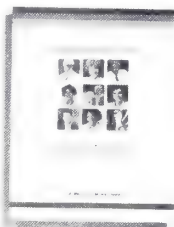
There's no doubt that these are tough times for selling to the airline industry. But the contraction is especially bad for Douglas because it markets only two plane types, compared with five at kingpin Boeing. That narrow product line leaves it little shelter when demand softens in one area. Cancellations

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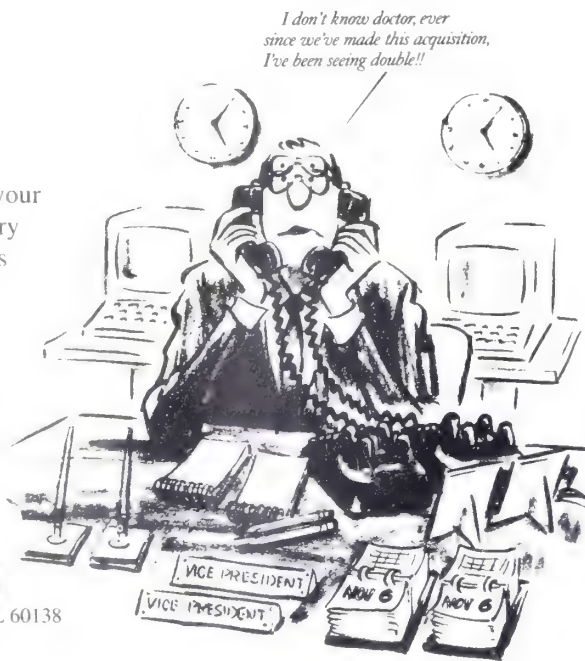
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tions have been another problem. McDonnell had a net loss of 27 narrowbody orders and six MD-11 widebody orders last year. Boeing Marketing Vice-President Richard L. James says his company has had a net gain of 133 single-aisle plane orders since the end of 1990.

The immediate future doesn't look much better for Douglas. Its share of the commercial jetliner order backlog is currently a paltry 12%, trailing a 3% share for Europe's Airbus Industrie, a way behind Boeing's 55% share. Despite a record \$200 million in operating earnings at the \$8.6 billion transport aircraft unit in 1991, Douglas risks joining Convair, Sud Aviation, and Lockheed in the annals of former commercial plane builders. Even John McDonnell refers to Douglas' position in jetliners as "No and fading."

NEW LEASE. The MD-12 could go a long way toward changing that. But for now the project depends on Taiwan Aerospace. In its revised proposal, TA says it will spend about \$2.5 billion to set up a manufacturing company in Taiwan to make parts for the MD-12 and to establish a leasing company to buy 20 of the planes. The leasing company would give McDonnell letters of credit worth about \$2.5 billion to fund some development expenses. But first, Taiwan Aerospace wants McDonnell to secure at least more orders. McDonnell executives haven't responded formally to the idea, but they aren't likely to welcome it. They still want an infusion of cash before embarking on such a risky, expensive development project.

Not all of the news out of McDonnell is bad. Analysts expect its C-17 military transport, more than a year behind schedule and \$1 billion over budget, to withstand heavy congressional flak and bring in up to \$35 billion in sales. And despite a recent Pentagon inspector general's report critical of the Navy's efforts to ease regulatory hurdles for new versions of McDonnell's venerable F-18, the fighter will probably win approval. That would pave the way for up to \$20 billion in additional sales.

Still, the days when McDonnell could count on a steady stream of new combat-aircraft contracts are history. That means the Far Eastern negotiations will continue. "Our position has remained steady from the word go," says Niss Davis, McDonnell's vice-president for the Pacific and Asia. "We are interested in an equity partnership." But with McDonnell's weak financial position and limited strategic alternatives, refusal to compromise may not be an option.

By James E. Ellis in Long Beach, Calif., with Bruce Einhorn in Taipei and David Roberts



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TOO MANY ROOMS AT THE INN FOR RITZ-CARLTON

In a glutted market, the chain is already in default on one loan

The Mauna Lani Ritz-Carlton Hotel is a gleaming gem on Hawaii's Kohala Coast. With its exotic koa wood paneling, marble floors, and crystal chandeliers, the 542-room hotel is designed to give the illusion of a stately seaside mansion. However, construction cost overruns of approximately \$13 million and disappointing occupancy rates have made it more like a house of horrors. "They overpaid big-time," says a former top executive of the hotel's parent company, Ritz-Carlton Hotel Co.

Penny-pinching is not exactly a trademark of Ritz Chairman William B. Johnson. A little-known Atlanta real estate investor, he purchased the rights to the Ritz-Carlton name in 1983, when he bought the legendary Boston Ritz-Carlton Hotel. Since then, he has aggressively expanded the privately held company, loading up on debt and entering markets from Pasadena, Calif., to Pentagon City, Va. (table). Ritz-Carlton Hotel Co. has full or part ownership of 13 of the chain's 25 hotels. Among its investors: Willard G. Rouse III, Prudential Realty Group, John F. McDonnell of McDonnell Douglas, and Ford Motor's real estate arm.

CASH-STRAPPED. But now, with a worldwide hotel glut and an industry that is trying to shrug off the effects of the recession, people close to Johnson's company say it is more than \$1 billion in debt, strapped for cash, and finding it difficult to meet its debt service. Ritz President Horst H. Schulze, who concedes

that the company is in default on a \$70 million loan and is seeking to restructure other debt, denies the company is in trouble. So far, none of its lenders has sought foreclosure. But some industry sources say a massive restructuring—likely involving such lenders as Bank of Tokyo Trust, Sumitomo, and Shimizu Land—may be in the works.

In a worst-case scenario, Johnson would give up the equity in the hotels he owns and merely act as a management agent. "Basically, they're at the mercy

of their lenders right now, only the empire is so fragmented, like with Olym & York, that no one's pieced it all together," says a source familiar with the company. Schulze vehemently denies that the Ritz has any serious financial problems.

Johnson, meanwhile, is unrelenting in his determination to build lavishly and expand as far as his investors will finance him. This year, he is opening five Ritzes and is in discussions with potential backers for 20 more. Johnson declined to be interviewed for this article. **INSOLVENT?** He will have a hard time getting any more backing from New York-based Teachers Insurance & Annuity Assn. The \$58 billion insurer has received the most recent payment on \$70 million loan for the Kansas City (Mo.) Ritz-Carlton—owned in part by unit of the real estate firm J. C. Nichols Co. And Teachers is suing to get out of an additional \$80 million loan commitment for the Tysons Corner Ritz-Carlton

that opened last year in McLean, Va. Teachers claims the Virginia hotel is now worth only \$50 million and is effectively insolvent. Schulze: "We disagree that the [reduced market value] should allow Teachers to pull out of this."

The Teachers dispute may be just the beginning of the headache for Johnson and Ritz. Few of the hotels are able to service the debt at current occupancy and room rates, say people close to the company. At its current average rate of \$132 a night, for instance, the Buckhead Ritz-Carlton in Atlanta would not better than 100% occupancy every night of the year to cover debt, estimates a consultant familiar with the hotel. Schulze claims that the Buckhead property is doing "exceptionally well."

But Schulze confirms that the Mauna Lani in which Johnson owns a one-third interest hasn't lived up to Ritz expectations. There is a "minor cash call," he says. The hotel at



LAP OF LUXURY: THE LOBBY OF THE TYSONS CORNER RITZ-CARLTON

RITZ BLITZ

Since buying the Boston Ritz-Carlton in 1983, Bill Johnson has expanded the chain by adding 21 new hotels and acquiring three others

Year opened	Locations
1984	Atlanta (two hotels); Laguna Niguel, Calif.
1985	Naples, Fla.
1988	Houston; Phoenix; Rancho Mirage, Calif.
1989	Dearborn, Mich.; New York (acquired); Washington (acquired)
1990	Cleveland; Kansas City, Mo. (acquired); Marina del Rey, Calif.; Mauna Lani, Hawaii; Pentagon City, Va.; Philadelphia; St. Louis; Sydney, Australia
1991	Amelia Island, Fla.; Double Bay, Australia; McLean, Va.; Palm Beach, Fla.; Pasadena, Calif.; San Francisco
1992*	Aspen, Colo.; Barcelona, Spain; Hong Kong; Kapalua, Hawaii
1993*	Cancun, Mexico

*Planned

DATA: COMPANY REPORTS

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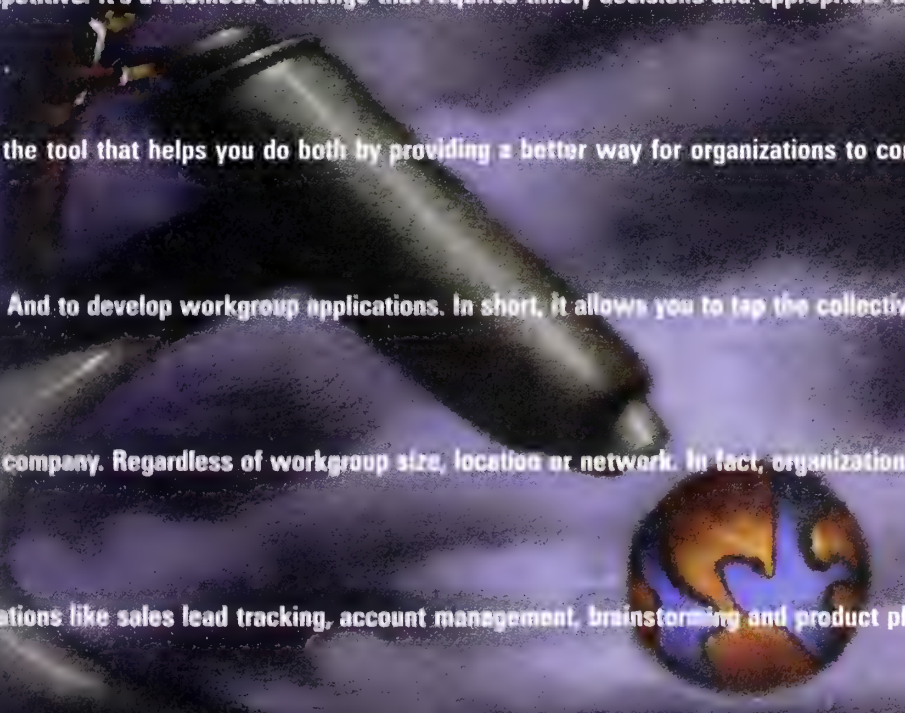
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aged only 44% occupancy last year, the consultant says. Schulze declined to confirm the number. But if things ever get too bad with any of the properties, he says, the Ritz-Carlton Hotel Co. could walk away from its nonrecourse loans, which give lenders no claim against the parent: "We would still have a management fee and would be very happy."

Owner Bill Johnson has plenty of management experience, but only lately with such a fancy outfit as Ritz-Carlton. A self-made man, he ventured into entrepreneurship with a Waffle House Inc. franchise back in the 1960s. Today, Johnson owns some 100 Waffle Houses, 10 Holiday Inns, and a Marriott. His greatest coup, rival hoteliers say, was purchasing the Ritz name for some \$70 million in 1983. "A brilliant move," says Darryl Hartley-Leonard, president of Hyatt Hotels Corp. Only one Ritz, in Chicago, is independently managed.

DISGRUNTLED. Johnson's reputation as a shrewd operator and a masterful deal-maker garnered him numerous investors. Some say they are thrilled: "It's being managed superbly," says Allen Ostroff, senior vice-president of Prudential Realty Group, which owns 90% of the Ritz-Carlton in Laguna Niguel, Calif. He has good reason to be upbeat: Last year the hotel had a 70% occupancy rate, better than its local rivals, and average room rates topped \$200 a night. "Over 90% of our outside investors are exceedingly happy," Schulze insists. "In some cases, their real estate results at the moment don't look as good, but operating results are excellent."

Many investors don't see it that way. New York's secretive Lee family, which lent Johnson some \$136 million to refinance his flagship Boston property in exchange for a future ownership interest, is in negotiations to take control of the hotel, according to sources close to the situation. Koichi Lee declines to comment. Schulze confirms that "intricate discussions" are taking place but declines to elaborate. Other outside investors, stuck with underperforming properties in glutted markets, are disgruntled as well. The chain "expanded too quickly, and the properties have too much money in them at this point," says a real estate executive who works with one California Ritz investor.

To Schulze, such thinking is short-term and ill-conceived. "A hotel is built for not three years, but for 60 years," he says in hushed tones, leaning forward in his chair. "I assure you that the Ritz-Carlton Hotel Co. will be here for many, many years." That may be. But if Johnson can't figure out a way to keep his lenders happy, his role in the company's future may be vastly reduced.

By Laurel Touby in New York, with bureau reports

People

ENTREPRENEURS

NO PEACE FOR MILAN PANIC

The ICN chief's fortunes are tied to war-torn Yugoslavia



PANIC: WORLD'S RICHEST SERB?

Within Yugoslavia's aspiring Serbian business community, Milan Panic is a folk hero. Not only did he escape the shackles of Communism early by defecting to the U.S. in 1955, but he also transformed himself into a millionaire pharmaceutical executive—perhaps the richest Serbian in the world. "He's a well-known and very popular name in Belgrade," says Nebojsa Vujovic, first secretary of the Yugoslavian Embassy in Washington. "He possesses a vast knowledge of the working market economy."

Too vast, in the opinion of some federal regulators and Wall Street investors. On the way to building ICN Pharmaceuticals Inc. into a \$460 million international drug company, Panic (pronounced PAHN-ish) has been investigated twice by the Securities & Exchange Commission for securities-law violations. And last year, he settled a civil action brought by the

U.S. Justice Dept. alleging that he overstated the potential of one of his compounds as an AIDS drug. Neither ICN nor Panic has admitted guilt in any of these cases. Some investors defend 62-year-old Panic as an aggressive visionary. But his management has spurred numerous shareholder suits, and his own board has censured him for misuse of corporate assets (table). Panic was unavailable to be interviewed for this article.

Now, Panic has managed to wrap controversy and his Serbian heritage into a single package: The ruling Socialist party in what's left of Yugoslavia—Serbia and Montenegro—wants to draft him as the nation's Prime Minister to help stabilize the economy and stave off Western military intervention. It's unlikely he would accept—it would jeopardize his hard-won U.S. citizenship and run counter to sanctions enacted against

avia in May by the U.S. and U.N. have expressed outrage over Serbian efforts to cut off humanitarian relief to Sarajevo, the besieged capital of Bosnia and Herzegovina. Nevertheless, Panic is likely to play some role in living the feud. Indeed, ICN's future depends on it.

The reason: In the past year, Panic's success has become increasingly tied to Yugoslavia's uncertain future. In May, ICN's drug-manufacturing and marketing subsidiary, SPI Pharmaceuticals Inc., bought 75% of Yugoslavia's best drug company, Galenika. In just a few months, the successful new unit contributed for 61% of SPI's 1991 revenues of \$364 million, and 96% of its \$100 million net profit. Meanwhile, Panic has signed letters of intent to set up similar joint ventures in Russia and Poland, and is searching for other opportunities in Eastern Europe, particularly in Hungary. ICN's stock has responded well to all this good news, and the company's board rewarded Panic for his efforts with a special stock bonus valued at \$5.4 million.

TO RICHES. Problem is, Galenika has become a victim of Yugoslavia's civil war. The company, which supplies medicine to much of the country, imports roughly two-thirds of its raw materials from the West—supplies that have been cut off by the sanctions. ICN is busy lobbying for an exception based on its status as a pharmaceutical company, a positive outcome. But two rounds of currency devaluations already have depressed the joint venture's value, and Serbia's hyperinflationary economy is poorly suited for any business there.

Panic, of course, has lived by his wits a long time. A chemist by training and a Yugoslavian national bicycling up, he defected to the West on his way to a race in the Netherlands, when he was 25 years old. He eventually made his way with his family to California in 1960, established a company called International Chemical & Nuclear, and bought a \$200 and an old washing machine. The latter, according to company lore, was used as a centrifuge to extract DNA from salmon sperm.

Panic is a far different company from the one that Panic had envisioned. Then, he had hoped to harness the secrets of DNA whose double-helix structure had been unraveled in the mid-1950s. His goal was to uncover a whole new set of therapeutic drugs and build a world-class pharmaceutical company. To get there, though, he knew he needed cut-

ting-edge research and a worldwide network to market the results. "He had the same sort of vision that's standard dogma among biotech companies today," says veteran drug analyst Samuel D. Isaly of New York's Mehta & Isaly. "But he was 20 years ahead of them."

In his zeal to build his company, Panic quickly became known as a promoter rather than a visionary. And by the early '80s, only the antiviral agent ribavirin, brand named Virazole, had emerged from the company's grandly titled Nucleic Acid Research Institute. Otherwise, ICN was mostly a ragtag collection of acquisitions, selling everything from generics to laboratory supplies. To raise

HIV, the SEC launched its own investigation. By 1989, ICN finally gave up the fight for AIDS approval in the U.S., writing off \$57 million in goodwill related to Virazole and posting a loss of \$82 million. Last year, the company paid a \$600,000 fine to settle with the FDA and signed an SEC consent decree.

RAINMAKER. Panic's problems in Washington, however, hardly diminished his clout in political circles, where he has long been an effective rainmaker. Board members have included Robert H. Finch, onetime Nixon Administration cabinet member; Birch E. Bayh, the former Indiana senator; and Jerry Brown, the former governor of California. Panic has raised money for Bayh and Brown, and Brown lobbied a California representative to intercede with the FDA during the Virazole crisis. In 1988, Panic also held a \$1,000-a-plate dinner at his luxurious Pasadena, Calif., mansion to raise support for then-Presidential contender Michael S. Dukakis.

Panic's ties are augmented by those of ICN-Galenika's vice-chairman, former U.S. Ambassador to Yugoslavia John D. Scanlan. State Dept. sources figure such ties are just what the Yugoslavs want in courting Panic. As the civil war drags on, the Serbs are becoming ever more isolated. On June 23, Secretary of State James Baker III announced tighter U.S. sanctions and said he would no longer formally receive the Yugoslavian ambassador. "There is a public-relations effort to do something about the Serbians' American connection," says one State Dept. expert on Yugoslavia. "The leaders in Belgrade see the Croats as having very strong ties to the U.S."

Longtime Panic adviser Lester B. Korn, founder of executive-search firm Korn/Ferry International, sees his controversial friend this way: "When you put someone as entrepreneurial and charismatic as Milan into a highly regulated industry, you may get some problems. But despite the controversy, I've never had any doubts about his basic ethics." Adds ICN's outside counsel, Arnold I. Burns, a former deputy U.S. attorney general: "He's a guy that loves the game, loves each new challenge." So far, Panic has met most of them. But winning friends for his native Serbia in the West and pulling his company out of the fire in Yugoslavia could prove a lot tougher than maneuvering on Wall Street or in Washington.

By Larry Armstrong in Los Angeles and Brian Bremner in Washington

ICN'S CONTROVERSIAL RECORD

1970 Stock jumps after ICN says it will market L-dopa—the Parkinson's disease drug. It buys several companies with stock before news of L-dopa side effects deflates stock price. Some previous owners of the businesses get refunds

1977 ICN signs consent decree with Securities & Exchange Commission after SEC charges it gave out misleading financial projections. Company does not admit guilt, but shareholder suits ensue

1979 In response to a shareholder suit, an audit committee of ICN's board forces Chairman Milan Panic to reimburse company \$123,000 for, among other things, personal use of a company-owned jet and house in Lake Tahoe, Calif.

1987 ICN reports its drug Virazole is effective in slowing the onset of AIDS. Food & Drug Administration says tests are inconclusive. FDA and SEC investigate

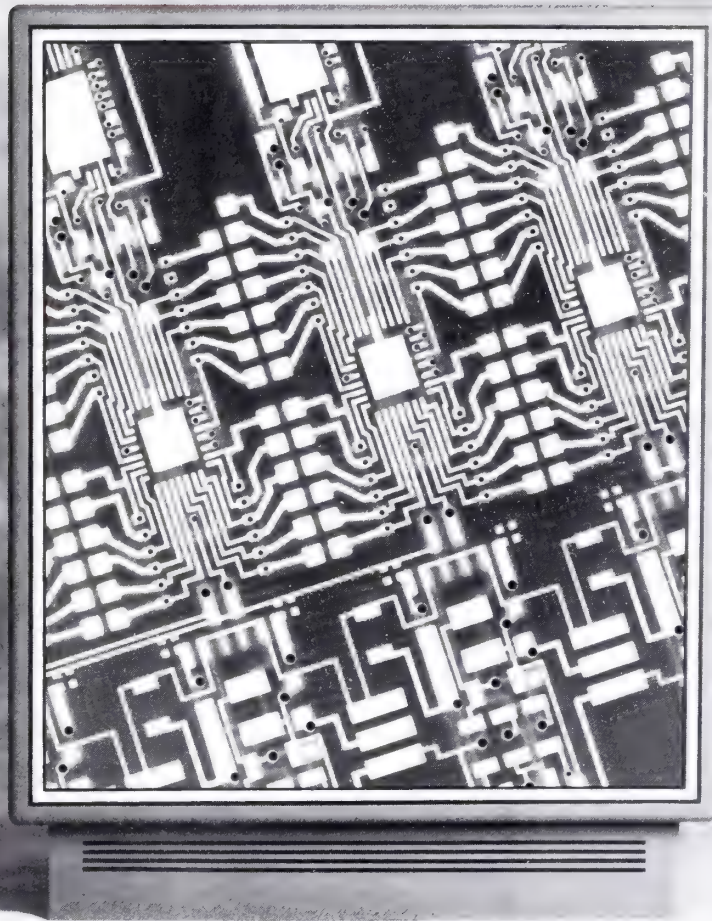
1991 ICN pays the FDA \$600,000 to settle Justice Dept. charges surrounding the promotion of Virazole and signs another SEC consent decree. Company never admits guilt

DATA BW

enough cash to continue developing Virazole, and to keep the company afloat, Panic was forced to carve up ICN into three units, taking each one public. Now, ICN is simply a holding company.

Virazole was approved by the Food & Drug Administration at the end of 1985, but only to treat an unusual respiratory disease in infants. Rumors that the FDA was considering Virazole as an AIDS treatment, however, sent the share prices of ICN and its subsidiaries soaring. Panic used the opportunity to sell \$13 million worth of his holdings in the companies, prompting a raft of shareholder lawsuits that still are unsettled. Soon, the FDA pressured ICN to recall promotional material that accompanied Virazole's initial, limited approval. And after a January, 1987, press conference, where ICN disclosed studies that it said demonstrated Virazole's effectiveness in delaying the onset of AIDS in patients with

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THOMSON NEEDS A HIT, AND IT'S UP TO NIPPER TO GO FETCH

Can its RCA and GE brands steal the show in big TVs?

Joseph Clayton knows how hot his seat is: "I've got 18 months," says Clayton, the new marketing chief of Thomson Consumer Electronics Inc.'s RCA and GE television businesses. He has to deliver the big gains that have eluded Thomson in the cutthroat \$9 billion U.S. TV market, where GE's and RCA's position, still the largest, has eroded (chart). Otherwise, Clayton, who oversaw TV manufacturing until March, says he'll probably get the boot.

French parent Thomson badly needs a success. In 1988 the conglomerate gave \$800 million and its medical-equipment division for General Electric Co.'s GE and RCA brands, then poured more than \$300 million into its American plants.

Clayton, who is also the new head of Thomson's worldwide audio business, says the U.S. TV business eked out a tiny operating profit last year on about \$1.5 billion in sales. But his French bosses want more. No wonder: In 1991, Thomson's worldwide consumer business lost \$462 million on \$5.8 billion in sales, including a \$280 million write-off. So Clayton, 42, is applying what he calls "shock treatment"—pricing more aggressively, pumping out ads, and wooing retailers.

WIDE APPEAL. In contrast to last year, when RCA and GE stumbled badly over some attempted price hikes, Clayton is slicing prices on some models. He's also targeting the market for sets 30 inches and larger. Although big-screen TVs account for less than 5% of unit sales, with prices of \$2,000 and more they make up 22% of retail sales, or almost \$2 billion. Big-screen sales to dealers are 50% ahead of last year, compared with 3.7% for all TVs. And gross margins for big-screen TVs are about 35%, vs. 20% for a 20-inch set. As for smaller sets, Clayton is simply hunkering down for

a struggle to retain or maybe boost share slightly.

To make big inroads in the high-margin end, Clayton is offering competitive prices and stressing the styling he ordered for RCA as director of manufacturing. In many sets, rounded edges have replaced sharp corners, and blacks and grays have banished the faux-wood look. RCA's smaller sets have updated styling, too, while GE gets a complete make-over next year.

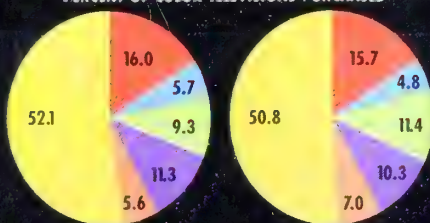
The changes are having an impact. RCA and GE now account for almost 20% of sales of sets 30 inches and larger—behind Mitsubishi, Toshiba, and Sony but up from less than 5% two years ago, notes Stephen Nickerson, director of color-TV marketing for Toshiba America Consumer Products Inc. Says Nickerson:

CLAYTON: CUTTING PRICES, BOOSTING THE AD BUDGET, AND WOING RETAILERS



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son: "They are drastically improving."

Clayton will also funnel \$30 million to double the 1991 budget, into ads emphasizing features and performance. To push RCA out from the "wall of electronics" that dominate stores' TV displays, Clayton has persuaded an Indiana Sears Roebuck & Co. store to test a flat-panel Thomson-designed display of a "living theater," complete with RCA large-screen TVs, VCRs, and speakers.

Clayton's back-to-basics tactics sent him off from his predecessor Mark Holleran, a GE man. Holleran got some marks for reintroducing RCA's cartoon mascot Nipper in ads. Yet Clayton and others took issue with his fondness for such ventures as sponsoring the America's Cup, which they saw as unproductive image-polishing. Says a Thomson executive in Paris: "People were taking sides. It was very unhealthy."

PUMPED UP. When French government official Alain Prestat took over Thomson's worldwide consumer business last month, he sided with Clayton, and Holleran left in March. Holleran calls the changes a "fine-tuning" of his strategy. Yet the soft-spoken Clayton brings an assertive style: At a sales meeting he once hired a World War II-vintage tank to crush rivals' TV sets. Says Donald R. Anderson, president of Denver's 18-store Schmid Appliance & TV Co.: "Clayton is pumping up the volume."

Some retailers, however, are leery of Clayton's plans to roll out the first wide-screen TV. A wide rectangular screen would make for more spectacular viewing than that offered by standard square screens. Trouble is, one is broadcasting in this format. The advent of high-definition TV may produce wide-screen transmitting, but until then RCA wide-screen sets will show the movie of the week with black bands on the sides. A zoom feature can fill the screen, but it cuts off the program top and bottom.

For Clayton, getting to market first with this wide-screen TV is a potent ad for RCA's technology leadership. Later on, he can turn his start-up venture into a moneymaker. Besides, he has to get through his hairy months first.

By Lois Therrien in Indianapolis, with Jonathan Levine in Paris



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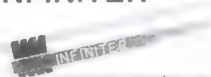
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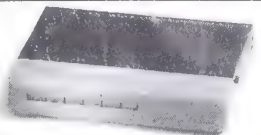
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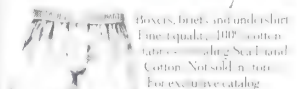
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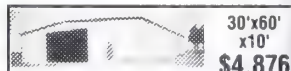
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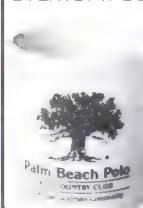


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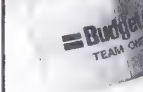
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EDITED BY AMY DUNKIN

Health

HYPERTENSION: TAKE HEART

It doesn't hurt, it doesn't feel bad. Yet it leads to the nation's No. 1 cause of death. High blood pressure, or hypertension, increases the risk of dying from cardiovascular diseases and strokes. These combined kill about 1 million people a year—twice as many as cancer.

Despite decades of research, hypertension remains an enigma. Even though about one in five Americans has it, researchers don't know what causes it, and controversy rages over what affects it. In the meantime, doctors have been controlling hypertension with a growing armory of drugs, and the death toll has been steadily declining, by 30% in the past decade. But now, physicians are starting to reconsider the drug-intensive approach to treatment. They are discovering that many patients respond just as well to changes in living habits as to lifelong drug use.

BIGHEARTED. Blood pressure embraces two different measures: The top, or systolic, reading represents the force of blood against the artery walls as the heart beats, while the bottom, or diastolic, figure relates to the pressure when the heart rests and refills between beats. A blood pressure greater than 140/90 is considered high.

Prolonged hypertension can burden the heart, causing it to enlarge and malfunction. It can also damage the arteries that feed the heart muscle and the brain, leading to heart attacks or strokes. According to the American Heart Assn. (AHA), people with uncontrolled hypertension are three times as likely to develop heart disease, six times as likely to develop congestive heart failure, and seven times

as likely to suffer a stroke as people with controlled hypertension.

Many conditions seem to accompany or contribute to the most common form of high blood pressure, called essential hypertension. "Hypertension is turning out to be a lot more complicated than we thought," says Allen Cowley Jr., head of the AHA's research council on blood pressure. "It is merely a piece of a much larger disease process."

Part of that process involves the endothelium, or inner lining of the arteries. Cells in this lining were long viewed as mere passageways for blood, but they are now known to release factors that regulate blood-vessel constriction, relaxation, and thickening. And they create new capillaries and tiny blood vessels that are constantly being destroyed and then replaced. "There's a flurry of activity to identify these factors and develop ways to turn them on and off," says Cowley. These same cells become damaged in atherosclerosis, or hardening of the arteries. As a result, cholesterol, platelets, and cellular debris collect in arteries, narrowing them and forcing the heart to work harder.

Another piece of the hypertension puzzle surfaced this

year when Dr. Richard Lifton of Brigham & Women's Hospital in Boston discovered a genetic mutation responsible for an early and virulent form of hypertension. Scientists are starting to close in on a complex of genes that may cause essential hypertension in rats. And further evidence points to a genetic cause. Hypertension runs in families and is affected by sex and race: Men suffer from it more than

women do, especially before the age of 55, and blacks get it more often and more severely than whites.

Environmental factors also play a role, though how it is debated. Yet most doctors agree that losing weight, cutting back on intake of salt and fats, and quitting smoking are important precautions.

A recent study initiated by the National Heart, Lung, and Blood Institute showed that healthy subjects with low



HELPING KEEP THE PRESSURE DOWN

DIET

► Try to limit your consumption of salt. Watch out for sodium in canned and processed foods. Use spices such as garlic, curry, tarragon, and lemon juice to replace salt for flavor

► Consume foods rich in calcium (broccoli, lowfat yogurt, skim milk), potassium (fresh fruits, vegetables, fish), and magnesium (soy flour, tofu, unblanched almonds, wheat germ)
► Limit cholesterol intake to 300 milligrams a day. Eat less meat, eggs, and dairy products, which are high in saturated fats and cholesterol. Eat more lean meat,

fish, poultry, and fresh vegetables. Try to limit your intake of fat to 30% of your total daily calories, and limit your consumption of saturated fats to only 10% of your total daily calories.

WEIGHT

► Try to stay at least 15% of the ideal weight for your height, gender, and age.

DATA: AMERICAN HEART ASSN.; PEOPLE'S MEDICAL SOCIETY



drug intervention and "stepped care," which means if one drug doesn't work, another is added to the brew. "Doctors are starting to resist putting people on drugs," says Dr. John Laragh, director of the Hypertension & Cardiovascular Center at New York Hospital-Cornell Medical Center. "As wonderful as these drugs are, there's no drug as good as no drug."

Doctors at his clinic keep patients off drugs as long as possible and try to wean them from medication once their blood pressure stabilizes at an acceptable level. "The traditional party line is: You keep them on drugs forever," he says. "Our goal is to reduce the amount of drugs and then finally get rid of them."

But where nondrug methods fail, doctors can choose from at least five different kinds of drugs that lower blood pressure. All have side effects, ranging from dizziness and depression to impotence. But not everyone suffers from them. Diuretics lower pressure by ridding the body of excess water through urination. Beta blockers impede the action of the hormone epinephrine, which causes the heart to beat faster. Both drugs can raise cholesterol.

Recent treatments such as calcium-channel blockers keep calcium from entering arterial muscle cells: Calcium can cause them to contract. Blood-vessel dilators act directly on the muscles in the arteries to relax them. Angiotensin-converting enzyme inhibitors block the production of an artery-constricting hormone called angiotensin II. These drugs don't raise cholesterol, but they have side effects such as insomnia, coughing, and constipation, and they have not been tested for long-term effectiveness. More specific drugs are in the pipeline.

Doctors are still a long way from solving the riddle of hypertension. But "the way things are moving, we'll have some of these answers in my lifetime," says the AHA's Cowley. "And I'm not exactly a youngster." *Pam Black*

re in the high-normal could achieve a noticeable decrease in diastolic pressure just by slimming down. People who weigh more than they ideally are especially at risk. Part is burdened by extra pounds, and obesity raises the levels of cholesterol in the blood.

can affect weight and hypertension risk factors by lowering the intake of cholesterol and saturated fat. Cholesterol is a fatty substance the body uses to

build cell membranes and make hormones. While the liver makes enough of it, Americans ingest about half again that amount in cholesterol and saturated fats found mostly in animal-based foods. Excess cholesterol can gather on artery walls and build up plaque. The "good" cholesterol—high-density lipoproteins (HDLs)—mops up loose "bad" cholesterol and recycles or eliminates it. But obesity, smoking, and the male hormone progesterone, for example, can depress HDL levels. Indeed, estrogen, which raises HDL and lowers LDL, protects premenopausal women from cardiovascular ailments.

SMOKE SIGNAL. Salt was long thought to be a cause of hypertension because the sodium in it retains water, adding to the liquid volume of blood and hence the heart's workload. But recent studies show that salt makes a dramatic difference only in certain "salt-sensitive" people. Other nutrients such as calcium, po-

tassium, and magnesium may help lower blood pressure, but there's no definitive proof.

Even though smoking doesn't cause high blood pressure per se, it is a contributing factor: For starters, it holds fats and cholesterol in the blood longer, according to a recent study at the Veterans Administration Medical Center in San Francisco. Smoking also damages artery walls and causes platelets in the blood to become sticky and cluster on walls or in clots. Alcohol, too, in large amounts seems to worsen high blood pressure, especially in older men.

Although stress has been linked to hypertension, there is little evidence that relaxation techniques and stress management alleviate it. And many researchers say stress is just too hard to quantify to know for sure.

Treatment of high blood pressure is starting to change. Doctors are moving away from strict lifelong

EXERCISE

• aerobically—at least 30 minutes every day
• Avoid isometric

LIFESTYLE

• No smoking, and limit alcohol to two ounces a day
• 3 ounces of wine, or 3 ounces of beer

Tax Tips

BEWARE THIS LUMP-SUM PAYOUT TRAP

If you're looking forward to more than one nice, fat "lump-sum distribution" when you leave your company, prepare to handle them carefully. Otherwise, you may wind up with some nasty lumps from the taxman.

That became clear when the Tax Court recently backed the Internal Revenue Service in a surprisingly hardline stance. "This case is really bad news," says Alan Prigal, a New York tax attorney and a consultant to *Bender's Federal Tax Week*. The ruling can double the tax bite on the unwary and discourage those who learn of it from setting aside some of their boon as a tax-sheltered nest egg.

The taxpayer involved in the suit, Robert O. Fowler Jr.

RULES FOR LUMP SUMS

If you want to apply a tax break known as "special averaging" to a distribution, you:



?

Can't use it for one lump sum if you roll another into an IRA in the same year

Must be 59 1/2 years old

Must qualify in various other ways

Must use it only once in your life

of Lexington, Mass., rolled over the lump sum from one of his employer's pension plans into an individual retirement account. And he applied a tax break known as "special averaging" to his payout from another of the employer's plans. By doing the roll-over, the IRS said, Fowler disqualified himself for special

averaging and lost a rate that might work out to as low as 15% or so. (Regular rates range up to 31%.) On one lump sum of about \$176,000, the IRS demanded an extra \$110,000 plus a \$27,500 penalty (since dropped). "In its first decision on the point," *Bender's* reports, the court held that to qualify for averaging

on a lump sum, "the taxpayer must elect that treatment all lump-sum distributions received in the same year."

AN APPEAL? In general, has been the IRS position. the law refers to "all amounts," notes an analyst by the Research Institute America, a tax-information publisher. So, the issue what's included in "all amounts." Fowler argues that the phrase logically refers only to taxable amounts. That way, the amount rolled over tax-free into an IRA shouldn't count.

Fowler has not decided whether to appeal, says attorney, William Schmidt, senior partner in Boston Hale & Dorr. But in meantime, Schmidt says there's "a lesson to be learned: If you want to avoid one lump sum and special averaging on another, make sure you receive it in two different years." because of other complexities involved, make sure you get good, professional tax advice up front. *Dick J...*

At a time when uncertainty rules the financial markets even more than usual, finding a good parking spot for money is no mean feat. For investors willing to move up a few notches on the risk scale, an alternative to certificates of deposit and money-market funds is short-term bond funds, which can yield close to 7%. The trade-off: You could lose principal, and if a recovery takes hold, rising short-term interest rates will nibble away at returns.

Despite the hazards, a number of investment advisers say that such funds can make good financial sense. "Money-market rates are so low that it's probably worth stepping up a little bit on the risk scale to get a return double what you'd get in a money-market fund," says Kurt Brouwer, president of Brouwer & Janachowski, a San Francisco-based investment advisory firm.

Smart Money

A NOT-TOO-RISKY WAY TO DOUBLE THOSE 3% YIELDS

Short-term bond funds limit their interest-rate risk by maintaining the average maturity of their portfolios at just three years or less. The type of debt securities held in these funds varies greatly, with some focusing on Treasuries,

others in the debt of federal agencies—such as mortgage-backed securities—and still other funds buying only corporate debt. The quality of credit also varies among short-term bond funds. Some boost yields by investing in riskier securities, including collateralized mortgage obligations, foreign bonds, and lower-rated or unrated debt.

STAYING AHEAD. What sort of damage could an increase in short-term interest rates wreak on the bond funds' returns? Thomas Poor, portfolio manager of the \$2.5 billion Scudder Short-Term Bond Fund, says the interest-rate risk of his fund is 2% in capital for

every 1% that interest rates rise on three-year Treasury bonds. With his bond fund yielding 7.25%, vs. the average money fund's 3.5%, "I have a 3.75% yield advantage over money funds, so if I lose 2% in capital, I more than make up for it in income," says Poor.

If short-term interest rates rise, as earlier this year, investors have to be prepared for fluctuations in net asset value as the price of one share of fund's stock. After starting the year with a net asset value of \$12.24, Poor's fund slipped to \$11.97 by the end of March. As of June 19, it edged back up to \$12.

One way to maximize a fund's return: Check the prospectus to see that the fund has a low expense ratio that doesn't have a sales charge "load." If expenses are more than half a percent, the fund will be hard-pressed to make up for that in performance, says Brouwer. And in today's uncertain market, every bit counts. *Suzanne Wo...*

NO-LOAD SHORT-TERM BOND FUNDS

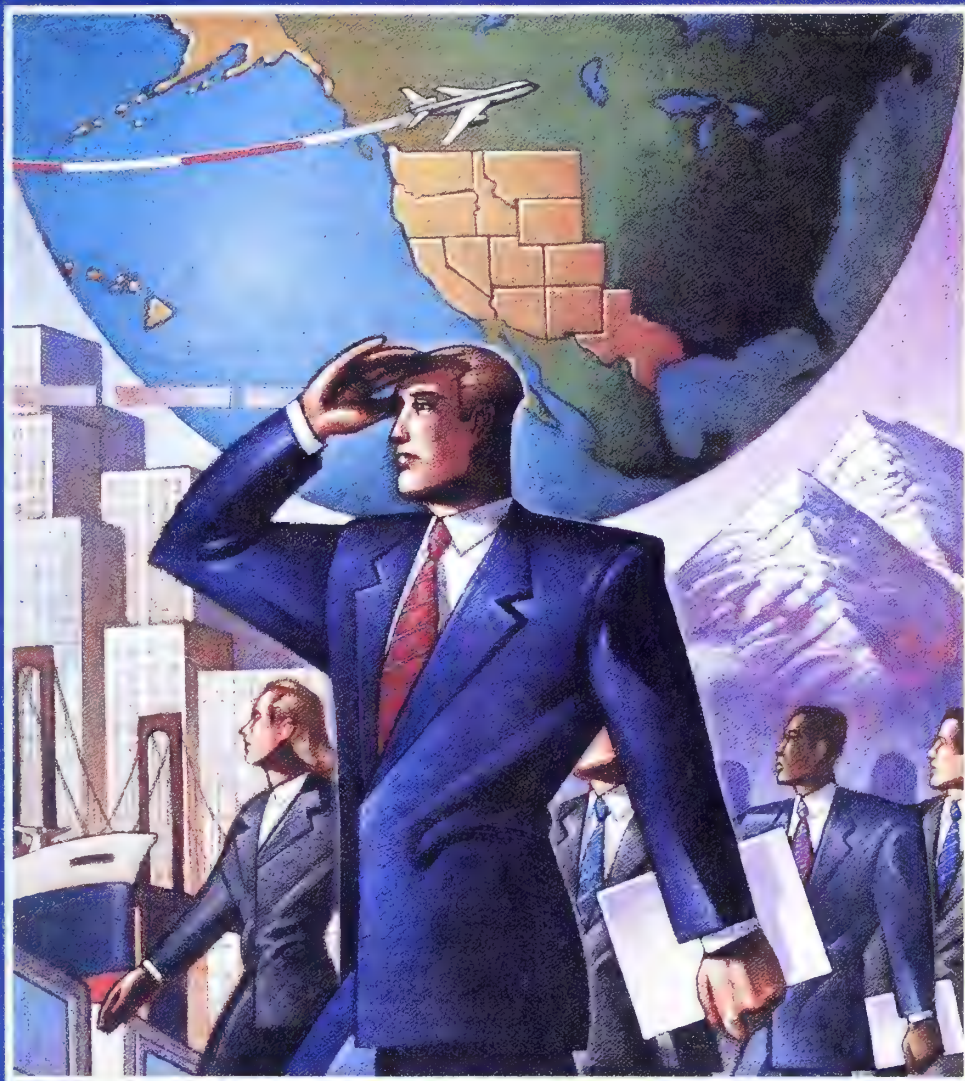
Fund*	30-day yield	Total return 1 year
BERNSTEIN		
SHORT DURATION PLUS	5.37%	10.00%
PIMMIT LOW DURATION	6.41	11.00
VANGUARD FIXED-INCOME		
SHORT-TERM CORPORATE	6.23	10.45
NEUBERGER & BERMAN		
LIMITED MATURITY	5.39	9.31

*Funds buy investment-grade debt and have expense ratios under 0.70%

SOURCE: LIPPER ANALYTICAL SERVICES INC., BW

WESTERN REGIONAL COMPETITIVENESS FOR 1992 AND BEYOND

THE BUSINESS WEEK WESTERN ROUNDTABLE
OF CHIEF EXECUTIVE OFFICERS



When the young were exhorted to "go west" in the 1850s, no one could have foreseen the great migration that followed, nor imagined the abundant opportunity and growth that lay ahead in that frontier. Today, with 53 million people in 12 states—from Hawaii eastward to the Mountain West—the Western region is an economic powerhouse. The California

economy alone is just slightly smaller than the United Kingdom's.

Business leaders of the region, all representing major corporations, gathered recently in Palm Springs to participate in the first annual invitational *Business Week* Western Roundtable of Chief Executive Officers. After the exclusive two-day meeting, the CEOs adjourned to enjoy the famed Nabisco Dinah Shore Golf Classic.

by Barbara H. Peters and James Peters

In line with the concerns of chief executives worldwide, these CEOs focused on the many challenges of globalization, market integration, and social and political change. But they explored these ubiquitous leadership issues from a distinct regional perspective.

A GLOBAL CONTENDER

"Historically, the Western region's economy has profited from the presence of an educated and diverse work force, state-of-the-art technology, and a wealth of capital," says **Donald W. Walls**, senior vice president and managing director of DRI/McGraw-Hill. With regional advantage also getting a boost from governmental policy, world-class universities, access to Asian, Mexican, and Canadian markets, plus a desirable quality-of-life, "clusters of high value-added jobs—in key high-tech industries and the financial and business services—have flourished in the region, contributing to its robust competitiveness."

Safi Qureshey, co-chairman, president and CEO of AST Research, singles out "a dynamic entrepreneurial culture" as the core of the region's muscle. "In the last 15 years, visionary entrepreneurs here in the West built both the information technology and biotechnology industries—industries that will be the drivers of the 21st century."

"For such industries to remain inventive and buoyant," Qureshey argues, "companies must partner with universities. It was cooperation between Stanford University and Hewlett-Packard that eventually spawned Silicon Valley." As AST aggressively pursues product innovation in the computer industry, it is casting its relationship with the University of California, Irvine, on the Stanford-HP model. "This creates value for the university, for our company, and for the region."

REGIONAL LEADERSHIP CHALLENGES

Like the rest of the nation, the West faces some daunting tasks in the years ahead. And those challenges are already front-burner issues for many of the region's CEOs.

Competition between Western states, for example, is a problem that preoccupies **Wilford D. Godbold**, president and CEO of the Zero Corporation. Seeking lower costs and a regulatory environment more welcoming to business, his manufacturing company recently moved two divisions from California to Utah. Two months later, the California Chamber of Commerce asked Godbold to head its Save California Jobs task force.

Between June 1990 and March 1991, California lost 675,000 jobs. Godbold reports that surveys of business leaders

reveal a knot of problems that need immediate, systematic attention to reverse the alarming job hemorrhage. "Job creation is hampered by an out-of-control workers' compensation system, skyrocketing health care costs, and overly lenient liability laws. Compounding these obstacles are high state taxes, a convoluted permits process, and a maze of government regulations."

Save California Jobs is sounding a grassroots wake-up call to state leaders who must now revisit the rules and regulations governing business. "The trick," Godbold cautions, "is to make changes that are good for the state's well-being and, at the same time, stimulate job creation."

"In the region's effort to sustain competitiveness, the pursuit of corporate advantage must not be permitted to degrade the environment," says **Kris McDivitt**, CEO of Patagonia, Inc. "The days of measuring corporate success by high growth and high profit are over," she asserts. "Every drive forward has an equal and opposite drive backward on our natural resources."

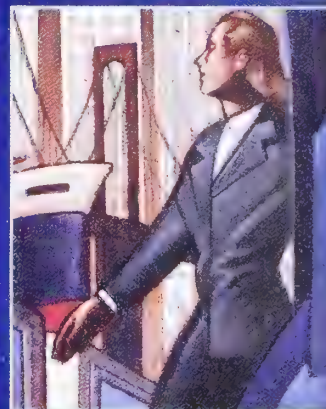
Clean air and water, species survival, and open space now command a value that competes with the corporate push for higher profits. McDivitt reports that eight years ago her outdoor clothing company began demonstrating its responsibility to "keep our own nest clean" by curbing its growth from 50-70% a year to 5-10%. "That triggered fundamental changes in how Patagonia does business—in design, manufacturing, and marketing."

A MATTER OF EDUCATION

Another big hurdle to continued regional competitiveness is the education crisis. Reporting that 30% of students in the West fail to graduate from high school and that 20% are illiterate, DRI/McGraw-Hill's **Donald Walls** notes that California—once the nation's leader in graduating high school students—has skidded into 42nd place.

Yet the education problem is even thornier because it is also national. Test scores of US students are near the bottom of the major industrialized nations. "Knowledge, in the sense of new ideas and sophisticated skills, is essential to our economic health," says Governor **Roy Romer** of Colorado. "We know our young people can learn more and can learn faster. Students throughout the industrialized world are demonstrating that."

The bottom line: we need to overhaul our school systems. Governor Romer urges CEOs to "join teachers and parents to develop a consensus about what children need to



"The free trade agreement is essential to the nation's economic health and an effective instrument for showing U.S. support of President Salinas' economic and social liberalization programs."

Thomas B. Kelly, managing director and member of the executive committee of Arthur Andersen





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James R. Boris, chairman,
president and CEO of
Kemper Securities Group



learn and at what age they need to learn it." Then, he says, "We need to support creative—and sufficiently financed—learning programs that target world-class goals."

OPENING BORDERS TO FREE TRADE
Motivated in part by the imminent economic unification of Europe, the discussion of an Asian trading bloc, and the trend toward privatization in Eastern Europe and the former Soviet Union, leaders of the US, Mexico, and Canada are now engaged in trilateral negotiations for a North American Free Trade Agreement (NAFTA).

Opening the border to free trade between the US and Mexico will profoundly affect many industries in the West. But **Thomas B. Kelly**, a managing director and member of the executive committee of Arthur Andersen, observes that most executives seem to favor an agreement, but that there is a lack of consensus about NAFTA's ability to deliver more opportunities than liabilities. Kelly agrees with those who view the free trade agreement as essential to the nation's economic health, and an important way to show US support of President Salinas' economic and social liberalization programs.

Still, he asks: "Will NAFTA adversely affect US employment? Reduce illegal immigration? Provide a major new market in Mexico?" These complicated questions, Kelly believes, demand an open and candid national debate.

Championing NAFTA at the *Business Week* Western Roundtable were **Roger Baccigaluppi**, former president and CEO of Blue Diamond Growers, and **Robert Van Dine**, vice chairman of St. Ives Laboratories. Baccigaluppi notes that NAFTA would create the world's largest regional trade area, a market of 360 million people. Mexico, whose economy ranks 10th worldwide, is already the third largest US trading partner.

"Since 1986, US exports to Mexico have nearly tripled—from \$12 to \$33 billion—and this has created 300,000 new US jobs," Baccigaluppi says. "A free trade agreement would lock in those gains and create new market openings for US business."

One company already reaping benefits from Mexican trade reform is St. Ives Laboratories, a medium-sized cosmetics firm. "We began exporting to Mexico in 1990," says Van Dine. "First-year sales totaled almost \$1.4 million. Sales for 1992 are projected to top \$2.8 million, despite the fact that our products cost about 25-30% more than those manufactured locally."

Howard Samuel, president of the Indus-

trial Union Department, AFL-CIO, voiced a different perspective. Insisting that the US shares little more than a 2,000-mile border with Mexico, Samuel categorizes Mexico "as a country where 90% of the people live in poverty and where average worker's wages are less than one-tenth of their US counterparts." Samuel believes the priority should be to help Mexico gain an equal industrial and economic footing with the US. "Then, as equals, we can negotiate an agreement that preserves US trade law remedies and insures that Mexico doesn't become an export platform for non-NAFTA countries."

MANAGING CORPORATE CHANGE
Chief executives in the Western region—like their peers around the globe—see no end to the accelerating pace of change. Indeed, corporate leaders today regard change as the overarching certainty of business life.

James R. Boris, chairman, president and CEO of Kemper Securities Group, who recently led his firm through a 14-month restructuring and consolidation, says, "The key to major change is to make your employees and your shareholders as comfortable as possible with the *process* of transformation."

"For Kemper," Boris continues, "this meant senior management had to set a clear direction for the organizational change and adhere strictly to the company's objectives." The mission was to align five regional brokerage firms into one strong nationwide operation. Building from its decentralized heritage, the newly consolidated Kemper Securities now uses an inverted pyramid management model.

"Management's job is to *support* the efforts of our investment bankers and brokers on the frontlines. These professionals, in turn, serve the changing needs of *their* clients," says Boris.

PARTNERSHIPS FOR ADVANTAGE
Public-private partnerships have a long history in the Western US. Alliances helped settle the region, build the railroads, irrigate the deserts. **Philip Burgess**, president of the Center for the New West, says, "Today's challenges are driving the growth of new partnerships in the West—public-private, intrastate and interstate, and cross-border."

Increased international competition is the catalyst for some bold new partnerships, for example, between the Port of Los Angeles and the private sector. The Port's executive director, **Ezunial Burts**, says, "For us, this generation of partnerships is different because they are equity partnerships. There are incen-

tives for long-term commitment—minimum annual guarantees and revenue-sharing agreements—on both sides of the bargaining table.”

One such venture is a state-of-the-art container terminal that is the first exclusive-use US facility for a major Japanese shipping firm. “This terminal means jobs for almost 3,000 people and \$250 million annually in industry sales,” says Burts. “It will ultimately benefit our entire regional economy and serve as a public-private partnership model.”

The former Mayor of Phoenix, **Terry Goddard**, sees the collapse of boundaries—city, county and state—as an excellent opportunity for collaboration. “In a time of declining federal and state revenues, cooperation among communities is strategically imperative.”

Goddard also endorses public-private projects. “In Phoenix, we teamed up with the private sector to collect and recycle trash, run landfills, deploy security, and provide computer services,” he says. “Moreover, the future offers vast opportunities for private participation in water service, waste management, roads, and all forms of transportation.”

R. Michael Mondavi, managing director and CEO of Robert Mondavi Winery, describes Opus One, his firm’s cross-border partnership with Chateau Mouton Rothschild in France, as an effort “to produce the world’s greatest wine.” Mondavi emphasizes that the two vintners shared similar goals. “We wanted to learn more about the *art* of winemaking, and they hoped to learn more about the *science*.” By blending the strengths of both companies—and both countries—they cultivated a wine that is now honored worldwide.”

NEW DIRECTIONS FOR HEALTH CARE

Among the West’s business leaders, no disagreement exists about the forecast that the nation’s health care crisis isn’t going away soon. But consensus is hard to find concerning the best course for reform—both in the country and within corporations.

James A. Curtis, chairman and CEO of Milliman & Robertson, reporting on a survey conducted by his firm among participants at the *Business Week* Western Roundtable, confirms that virtually all CEOs believe health care plans cost too much and are now undertaking changes to help cut those costs. New directions include: more employee cost-sharing, changes in insurers or administrators, flexible benefits plans, and reductions in benefits. “Significantly, 64% of the CEOs are willing to provide incentives—including financial ones—to encourage employees to improve their health,” Curtis notes.

There was great divergence among the

CEOs on the issue of a single health care system for the nation. But Curtis stresses that CEOs should take a proactive role in the national health care debate. “Otherwise, the business community will endure a solution it failed to influence.”

Peter Boland, president of Boland Health Care Associates, adds, “CEOs must ask the tough questions about cost containment, about delivery systems, and about the quality of suppliers. You can’t save money without quality. Put simply, we need to forge a health care partnership with our suppliers—not only the insurers but also the hospital and physician groups—because they are the real cost managers.”

At Southern California Edison (SCE), health care costs had been rising by over 20% a year from 1981-88. “So, in 1989, we switched to a managed care plan,” says president **Michael Peevey**. “And we cut our trend rate in half, from a projected 1992 cost of \$162 million to a more manageable \$114 million. In total, we saved \$66 million in 1989-91.”

Peevey explains his company’s strategy: “We created our own network of providers—physicians and hospitals willing to accept the fees we would pay. Through co-payment differentials, we encouraged our employees to use these providers.”

Creative benefit designs like SCE’s are just one of the ways companies can control costs says **Leonard D. Schaeffer**, chairman and CEO of Blue Cross of California. “Companies should also invest in wellness and prevention programs. And they should choose managed care partners with superior records of customer service and quality care.”

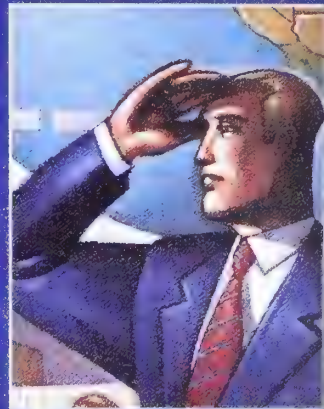
AN ENTERPRISING LEGACY

Despite the tough choices facing the West—and the nation—CEOs at the *Business Week* Western Roundtable expressed confidence about the future. Indeed, **William Agee**, chairman and CEO of Morrison Knudsen Corporation, says, “I am outright bullish about the 1990s.”

Former President **Gerald R. Ford** echoed the optimism. “In my lifetime, Americans won two world wars, overcame the Great Depression, and helped dismantle world communism. These wins weren’t achieved by selling short America’s enterprising spirit.

Surely that spirit will prevail as leaders of the Western region craft solutions to the challenges of today—and tomorrow.” ■

Barbara H. Peters and James Peters are New York-based writers who specialize in corporate communications.



“Unless CEOs take a proactive role in the national health care dialogue, the business community will endure a solution it failed to influence.”

James A. Curtis, chairman and CEO of Milliman & Robertson, a national actuarial and consulting firm.



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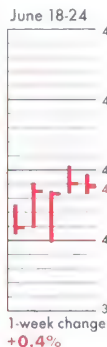
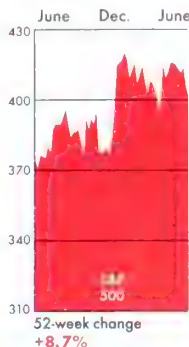
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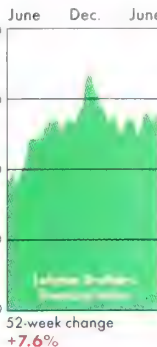
STOCKS

Market has just started, but the market looks like it's already moving. Day-to-day price changes were barely noticeable, but over the week, the Dow industrials rose 1.5 points, the S&P 500 made microscopic gains. One surprise was IBM, which climbed \$5 or 5.4%, while other computer stocks got mixed. Small-company stocks sold off with the Russell 2000 index down 0.5%. The rout in Tokyo continued with the Nikkei hitting its lowest since 1986. London stocks fell 2.5%.

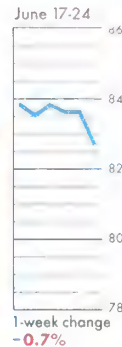
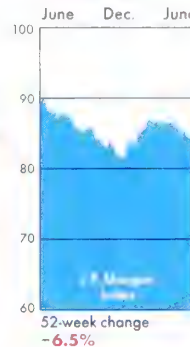
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3290.7	0.1	13.0
COMPANIES (Russell 1000)	213.0	0.4	10.0
COMPANIES (Russell 2000)	186.4	-1.5	11.2
COMPANIES (Russell 3000)	226.5	0.2	10.0

INTERNATIONAL STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
DOW JONES (FINANCIAL TIMES 100)	2532.6	-2.5	3.7
NIKKEI INDEX	15,853.7	-3.6	-33.3
DOW JONES (TSE COMPOSITE)	3339.6	-0.8	-4.1

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.72%	3.69%	5.7%
30-YEAR TREASURY BOND YIELD	7.82%	7.82%	8.5%
S&P 500 DIVIDEND YIELD	3.05%	3.02%	3.3%
S&P 500 PRICE/EARNINGS RATIO	24.7	24.6	17.7

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	411.3	410.9	Negative
Stocks above 26-week moving average	36.8%	44.0%	Neutral
Speculative sentiment: Put/call ratio	0.52	0.52	Positive
Insider sentiment: Vickers sell/buy ratio	2.13	2.00	Neutral

INDUSTRY GROUPS

WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
AUTOMOBILES	8.8	11.7	CHRYSLER	17.5	51.4	21
INSURANCE	8.3	28.0	TORCHMARK	11.1	27.5	64 7/8
TOYS	7.9	61.8	MATTEL	14.1	78.4	24 1/4
TELECOM	6.2	5.1	CYPRUS MINERALS	17.9	17.9	28
STEEL	4.8	17.9	INLAND STEEL INDUSTRIES	15.2	15.8	25 5/8

WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
MANUFACTURED HOUSING	-15.6	-12.5	FLEETWOOD ENTERPRISES	-18.3	-13.1	27 3/8
KING	-14.1	0.4	ROADWAY SERVICES	-15.0	15.4	63 3/4
FISHINGS AND APPLIANCES	-12.9	8.2	FEDDERS	-31.7	-48.1	5 1/8
COMMUNICATIONS EQUIPMENT	-12.5	-5.2	NORTHERN TELECOM	-14.2	-5.4	34 3/4
REBUILDING	-12.2	10.5	KAUFMAN & BROAD	-15.4	-11.1	13

MUTUAL FUNDS

TOP PERFORMERS	%	LAGGARDS	%
4-week total return		Four-week total return	
MORE PRECIOUS METALS INDEX PLUS	5.2	STEADMAN OCEANOGRAPHIC TECHNOLOGY	-12.1
SELECT AMERICAN GOLD	5.0	FIDELITY SELECT COMPUTERS	-11.2
LIFETIME GOLD & NATURAL RESOURCES	4.6	NAUTILUS	-10.9
52-week total return		52-week total return	
SELECT SAVINGS & LOAN	51.6	LEXINGTON STRATEGIC INVESTMENTS	-45.2
SELECT REGIONAL BANKS	48.5	UNITED SERVICES GOLD SHARES	-31.1
DOMESTIC REGIONAL BANK B	44.2	G. T. JAPAN GROWTH	-30.6

RELATIVE PORTFOLIOS

Amounts at the present of \$10,000 one year ago portfolios	Treasury bonds	U. S. stocks	Foreign stocks	Money market fund	Gold
Figures indicate total returns	\$11,673 -0.27%	\$11,232 -1.05%	\$10,531 -2.54%	\$10,397 +0.06%	\$9,407 +0.61%

On this page are as of market close Wednesday, June 24, 1992, unless otherwise indicated. Figures include S&P 500 companies only; performance and share prices are as of market close.

June 23. Mutual fund returns are as of June 19. Relative portfolios are valued as of June 23. A more detailed explanation of this page is available on request.

THE SILVER LINING IN THE AIRLINE SHAKEOUT

Industry shakeouts aren't pretty—and the current one in the U.S. airline industry is no exception. But when too many competitors put themselves deep in hock to add a bunch of unneeded capacity, the result is predictable: The worst offenders go out of business, others seek protection under bankruptcy law, and a few of the strongest try to turn their muscle into a long-term advantage.

There's been tremendous turmoil in the airline business ever since deregulation in 1978. There was a period of startups, a period of massive mergers, and then a period of consolidation that continues today. Bankruptcy laws have been used by weaker carriers to keep fighting against the big guys; stronger carriers have used their clout to lock up landing slots at major airports and add so many flights to key routes that no rival has a chance.

This has taken a toll on service. You can't count on airlines meeting schedules the way you once could. It's hard to keep up with all those different fares, despite the supposed simplification. Full-service airlines have dwindled from 18 to 9. Still, add it all up and the U.S. consumer has done pretty well. Airlines have become more efficient, run more as businesses than utilities—as in the regulated days—and the cost of air travel has remained fairly low. If you don't believe that, just pay for a ticket to fly between two European cities. Regulation and protectionist policies have led to such exorbitant fares that the European Community is seeking changes (page 54).

There is clearly more pain ahead. This year, U.S. carriers are losing money faster than they can lose your baggage. And this summer's fare war means the red ink will continue. But keep in mind that these losses are in large part the reflection of an overexpansion in the late 1980s, financed by a lot of easy money, and of a deep recession.

The bottom line is that deregulation is working just as it should. Sure, maybe it's unfair to this or that airline that Continental has lowered its costs by filing for Chapter 11, or that United and American have most of the landing slots sewed up at O'Hare. But the industry is making steady progress toward a day when they will be able to make a solid profit if they run their businesses correctly.

CEO PAY: DISCLOSURE IS THE BEST POLICY

It's only in the last year or so that the uproar over vast pay packages handed to CEOs has erupted. One reason for the long silence through much of the climb in executive pay: complicated, self-serving compensation plans that inadequately disclosed long-term compensation. The corporate proxy statement reporting the pay of its top five executives all too often became an exercise in obfuscation.

On June 23, the Securities & Exchange Commission proposed a series of welcome changes to improve the disclosure

of executive pay (page 37). Under the plans, companies would be required to report in easy-to-read tables all compensation, including stock options, over not one but three years—which would allow investors to make their own judgments on whether increases in the boss's pay are justified.

The compensation committee would also be required to explain its awards in relation to the company's performance. In the proxy, a company would have to compare shareholder return with a broad market index, such as Standard & Poor's 500-stock index, and an industry peer group.

Of course, much of the rise in executive pay is due to more generous use of stock options—whose values are often difficult to predict and understand. The SEC's proposal would require companies to disclose the potential value of an option if the stock rises by 50%, 100%, or 200% over a 10-year term. That's a welcome change because shareholders would be able to immediately assess the potential value of what until now has been an abstract award.

Despite some dangers in the proposals, the SEC is right to seek fuller disclosure. It could help keep the decision on what to pay CEOs where it belongs—in boardrooms rather than in the halls of Congress.

LET'S PUT LIMITS ON HOME-EQUITY LOANS

For years, it has been generally assumed that tax-deductible home-equity loans were the best consumer products to come along in decades. Beyond the tax deduction, they allowed homeowners to free up some of the equity in their houses that otherwise would have been unavailable until they sold their homes. Thanks to home-equity loans, many individuals could make badly needed home improvements or borrow enough to ease the burden of college tuition for their children.

Unfortunately, as with most tax loopholes, there has been abuse (page 56). Last year, only 28% of home-equity line-of-credits (HELOCs) went for home improvement, according to the Consumer Bankers Assn. Nine percent went for education. Instead, many homeowners traded away their equity for loans to buy new cars or boats, even to make investments.

Such borrowing has gotten out of hand. Using HELOCs to purchase big-ticket items clearly violates the spirit of the Tax Reform Act of 1986, which phased out deductions on most consumer loans. There's also a question of fairness. Those who don't own a home have no such tax-deduction benefits. Finally, for generations owning a home has been like having a forced savings account. Individuals counterbalance their homes for their retirement nest egg. But the boom in home prices is over. If homeowners continue to borrow against their remaining equity, the future looks bleak for any improvement in the U.S. saving rate.

To protect current and future generations, Congress should limit deductibility to loans made for borrowing for home improvement or education. Taking away breaks for voters is far from popular, especially in an election year. The last thing the U.S. needs is another bout of excessive lending and another banking crisis.

Thousands of spectators watch early round play on the outside court of Wimbledon.



In 1869, the All England Croquet Club established itself on four rented acres in Wimbledon. By 1875, the Club had set aside a rectangle of grass for lawn tennis, which was growing in popularity. Two years later, the Club had changed its name to the All England Croquet and Lawn Tennis Club.

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THE IMMIGRANTS

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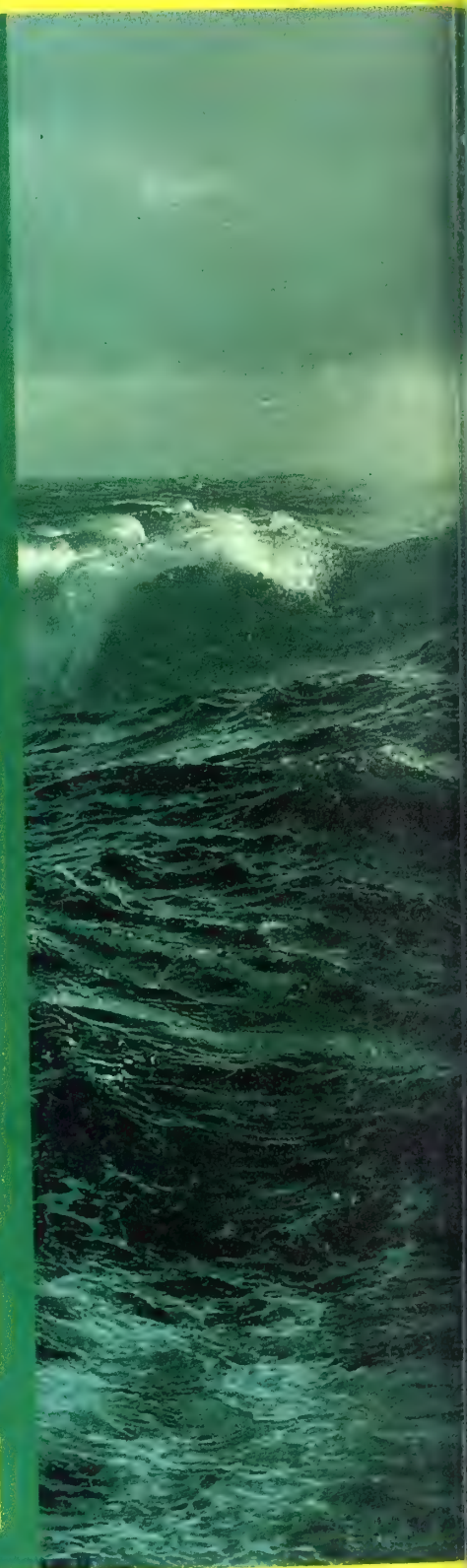
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DREAM BUILDERS: A NEW GENERATION OF IMMIGRANTS, AMONG THEM THE ACEVEDO BROTHERS, IS MAKING IT IN THE U.S. ECONOMY

Cover Story

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For over a decade, a tidal wave of immigration has been hitting U. S. shores. Newcomers from Asia and Latin America—many well-educated and highly skilled—are revitalizing the U. S. economy and bringing needed savvy to global competition. But many native-born Americans feel the influx is straining resources, taking jobs, and inflaming tensions

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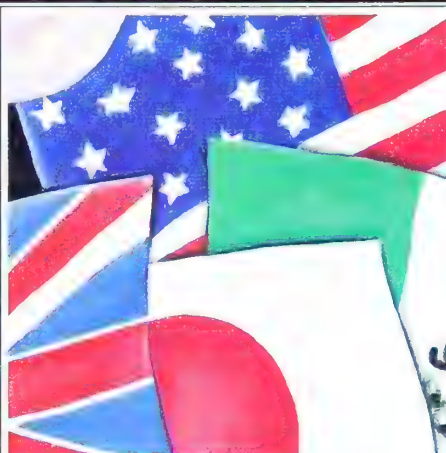
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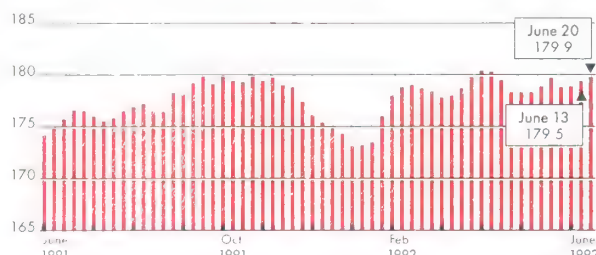
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PRODUCTION

Change from last week: 0.2%

Change from last year: 1.8%

1967=100 (four-week moving average)



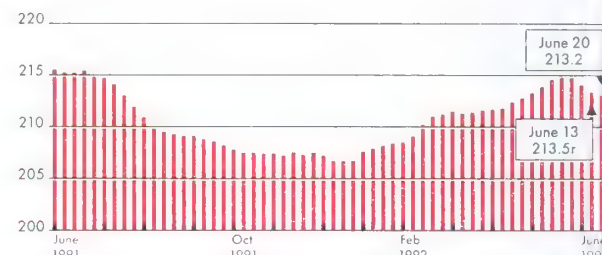
The **production index** moved higher during the week ended June 20. On a seasonally adjusted basis, production of steel, autos, and rail-freight traffic increased. Truck, paper, paperboard, and lumber output were down, while electric power, crude-oil refining, and coal production were unchanged from the previous week. Before calculation of the four-week moving average, the index rose to 182.4, from a revised reading of 181.8 for the week of June 13.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: -0.1%

Change from last year: -1.1%



The **leading index** was slightly lower during the week ended June 20. Low stock prices and further deterioration in the growth rates of real estate loans and M2 suggest that the recovery will be extremely sluggish. The negative readings of lower bond yields, fewer business failures, and faster growth in materials prices before calculation of the four-week moving average, the index fell to 213.1, from 213.4 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (6/27) thous. of net tons	1,814	1,767#	14.2
AUTOS (6/27) units	123,566	137,965r#	-1.7
TRUCKS (6/27) units	78,819	84,171r#	1.0
ELECTRIC POWER (6/27) millions of kilowatt-hours	59,797	60,842#	-5.1
CRUDE-OIL REFINING (6/27) thous. of bbl./day	14,241	14,035#	2.4
COAL (6/20) thous. of net tons	19,171#	19,315	-1.6
PAPERBOARD (6/20) thous. of tons	811.2#	833.1r	6.1
PAPER (6/20) thous. of tons	751.0#	749.0r	-1.8
LUMBER (6/20) millions of ft	468.5#	495.1	-14.5
RAIL FREIGHT (6/20) billions of ton-miles	21.4#	21.1	8.6

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (7/1)	125	127	139
GERMAN MARK (7/1)	1.51	1.55	1.81
BRITISH POUND (7/1)	1.91	1.88	1.60
FRENCH FRANC (7/1)	5.10	5.23	6.24
CANADIAN DOLLAR (7/1)	1.20	1.20	1.14
SWISS FRANC (7/1)	1.36	1.40	1.59
MEXICAN PESO (7/1)	3,107	3,105	3,020

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (7/1) \$/troy oz.	343.550	343.720	-6.4
STEEL SCRAP (6/30) #1 heavy, \$/ton	90.00	90.00	1.1
FOODSTUFFS (6/29) index, 1967=100	204.6	202.1	4.3
COPPER (6/27) ¢/lb	110.6	106.4	5.3
ALUMINUM (6/27) ¢/lb	57.5	59.1	-3.8
WHEAT (6/27) #2 hard, \$/bu	3.79	3.80	29.4
COTTON (6/27) strict low middling 1-1/16 in., ¢/lb	59.77	59.77	-22.9

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (6/26) S&P 500	403.57	406.10	
CORPORATE BOND YIELD, Aaa (6/26)	8.20%	8.22%	
INDUSTRIAL MATERIALS PRICES (6/26)	98.8	98.9	
BUSINESS FAILURES (6/19)	386	407	
REAL ESTATE LOANS (6/17) billions	\$401.1	\$402.1r	
MONEY SUPPLY, M2 (6/15) billions	\$3,408.6	\$3,411.4r	
INITIAL CLAIMS, UNEMPLOYMENT (6/13) thous	422	406r	

Sources: Standard & Poor's, Moodys, Journal of Commerce (index: 1980=100), Dun & Street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
CONSTR. SPENDING (May) annual rate, billions	\$423.2	\$422.4r	6.1
NEW HOME SALES (May) annual rate, thous.	501	531	2.1
PERSONAL INCOME (May) annual rate, billions	\$5,008.3	\$4,994.3r	3.1
CONSUMER SPENDING (May) billions	\$4,062.3	\$4,043.9r	4.1

Sources: Census Bureau, Commerce Dept

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (6/15)	\$953.1	\$956.0r	0.1
BANKS' BUSINESS LOANS (6/17)	281.7	281.4r	0.1
FREE RESERVES (6/24)	97.4	326r	0.1
NONFINANCIAL COMMERCIAL PAPER (6/17)	148.5	144.9	1.1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed in two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (6/30)	4.53%	3.70%	6.1
PRIME (7/1)	6.50	6.50	3.0
COMMERCIAL PAPER 3-MONTH (6/30)	3.89	3.91	1.1
CERTIFICATES OF DEPOSIT 3-MONTH (7/1)	3.82	3.83	1.1
EURODOLLAR 3-MONTH (6/27)	3.85	3.84	1.1

Sources: Federal Reserve Board, First Boston

#Row data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Why are so many Lotus 1-2-3 users switching to Microsoft Excel?





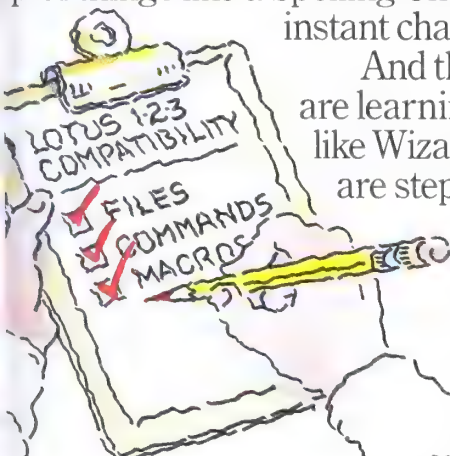
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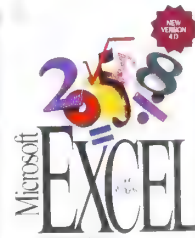
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MUTUAL-FUND FEES CAN BE BARGAINS FOR INVESTORS

In "The SEC waves an ax at mutual-fund fees" (Finance, May 25), the value of the services paid for by front loads and annual fees is given little credit. Actually, a front-loaded mutual fund is one of the least expensive ways a small investor can have access to advice from highly trained professionals.

A typical 5% front load on a \$2,000 individual retirement account mutual fund costs the investor a mere \$100. For that \$100, the shareholder has the support of a fund manager, research analysts at the fund company and brokerage house, technical and processing help from the broker, and the personal advice of the broker's registered representative for as long as they hold that investment. Very few small investors would be able to afford the hourly rates of these combined talents.

As for the proposed "negotiated loads," is it in the small investor's best interest to "shop the discount department" for advice that may affect their future financial stability?

Valerie J. Hunsicker, CPA, CFP
Knisley Associates
Harrisburg, Pa.

Editor's note: The load compensates the broker for his or her advice and support but does not pay for the fund's portfolio manager or research staff. All mutual funds, load and no-load, pay that out of fund assets.

DOES 'FREE TRADE' INSULT THE FOUNDING FATHERS?

Your commentary arguing against "managed trade" ("Free trade: The U.S. shouldn't play purist," Top of the News, June 8) does great injustice to 55 men who met in 1787 to write the U.S. Constitution, which states in Article I, Section 8: "Congress . . . shall regulate Commerce with foreign Nations," thus rejecting the earlier fantasies of Adam Smith in favor of "regulated," which is to say "managed," trade. Article I also mandates that federal taxes "shall be uniform throughout the United States," while the 14th Amendment re-

quires all laws to be applied equally.

So-called free trade across our border is a devious ploy to circumvent the intention of our founding fathers by means of a double-standard agenda that grants immunity to foreign producers from laws that American producers must follow or at a cost of over 80% of their own. These transgressions of moral and constitutional integrity have inflicted harm on the people of this nation by all external adversaries in the past 50 years. No wonder Americans are disenchanted with the direction politicians and their global puppeteers are taking our country.

Gus R. Steele
Mill Creek, W.

NO COURT OF APPEAL FOR COUPON DISPUTES

Your article "Coupon scams are ripping companies" (Marketing, June 15) focused on only the suspected coupon fraud affecting manufacturers. On the other side to the story, however, is the unfair, draconian practices many manufacturers employ against all retailers as a reaction to the manufacturers' suspicions of fraud.

For example, some manufacturers refuse to pay for entire coupon inventory when the number of coupons submitted exceeds a tight statistical model of expected redemption. Typically, manufacturers and their clearinghouses accuse, judge, jury, and executioner against retailers on coupon issues. They decide when and when to pay for their coupons and rarely do they agree to provide evidence to the retailer to support the asserted misredemption.

Kenneth S. Folts
Control
Schultz Sav-O Stores
Sheboygan, W.

NEW 401(K) REGULATIONS WOULD BE OPTIONAL

In your article "It's time to start adding your nest egg" (Personal Finance, June 8), you stated that "the government is about to finalize proper Employee Retirement Income Security Act [ERISA] regulations that will require

BUSINESS WEEK
JULY 13, 1992 ***3274
ISSN 0007-7135



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Readers Report

CORRECTIONS & CLARIFICATIONS

In the story "Beauty and the beastness" (Top of the News, June 29), we incorrectly described Joseph F. Rochetti's status at Elizabeth Arden Co. as a unit of Unilever PLC. He will retire as chief executive when his contract expires in August and then serve in a consulting role as vice-chairman of Unilever's Prestige Products Group.

In a table titled "Where the PC makes its stand" ("This is not a fun business to be in right now," Information Processing, July 6), the price of a Compaq ProLinea 386SX-25MHZ personal computer (including color monitor, hard disk drive, and at least two megabytes of memory) should have been listed at \$1,274.

401(k) plan sponsors to provide a menu of investment options. . . . Actually, the proposed regulations under ERISA Section 404(c) are not a requirement but an optional choice that an employer plan sponsor can select.

If selected, the employer plan sponsor is shielded from part of the fiduciary liability associated with sponsoring 401(k) plans. In addition to offering a broad menu of investment options, the plan would also have to provide employees with the opportunity to make investment changes at least quarterly. Your article stated that there were no regulations with respect to investment changes.

John P. McCann
Vice-President
North Central Trust
LaCrosse, Wis.

Editor's note: While the plan features are optional, many companies feel obligated to adopt them because of potential liability.

SELL THE GREEN CARD TO THE AVERAGE JOE

Regarding your article "What's in the cards for Harvey Golub?" (Financial June 15), the following is my unsolicited advice on what steps Golub can take profitably to reengineer American Express Co.:

1. Cancel the Optima card. It was a bad idea to begin with. Besides, the launch was a disaster with no clear communications strategy. As a long-time AmEx member since 1984, I must admit I was confused.

2. Relaunch the AmEx Green card. This should have been converted to a regular credit card, to go into dis-

competition with Visa and MasterCard. Market research is providing any clue at the end of the 1980s, the success of American Telephone & Telegraph Co.'s universal card, the trend toward low-interest commodity cards, etc.), AmEx must broaden its appeal. So make the "Green" more widely available to the average Joe.

Reposition the Gold card. Loyal, status-conscious Green card holders could move up to the Gold card, with the understanding that it will continue in its current incarnation. The Green card ads must appeal to the Gold card crowd anyway. How many Green card holders can afford the lifestyles that these ads portray?

Jack Nargundkar
San Diego

IS TAX BILL IS A STEP TOWARD UNTANGLING THE MESS

One could take issue with many of Robert Kuttner's statements on bill H. R. 3035 ("For this Christmas, you could be footing the bill," Economic Viewpoint, June 8). I'll limit comments to a few.

First, Gillette Co. does not maintain a fiscal action committee, as the column has read to suggest.

Second, H. R. 3035 [which would allow corporations to deduct so-called intangible goodwill on their taxes] is hardly a "bad idea." It was introduced by House Ways & Means Committee Chairman Dan Rostenkowski (D-Ill.) on July 25, 1991, and has been widely discussed and debated. It was passed by Congress on October 20, 1992, as part of H. R. 4210 (Tax Reform and Economic Growth Bill of 1992) and was subsequently vetoed by President Bush.

Third, the original revenue estimate for H. R. 3035, including the retroactive proposal, showed revenue neutrality. Opponents of H. R. 3035 are shocked by the latest estimate by the joint committee, which indicates a cost of \$3.6 billion. If this estimate holds, the proposals still will be amended to produce revenue neutrality.

So one denies that the current tax laws governing intangibles are inconsistent and have created an expensive administrative nightmare. But this represents a huge step in the right direction.

J. M. McGowan
Director of Taxes
Gillette Co.
Boston

Letters to the Editor should be sent to Readers Service, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax: (212) 512-4464, (212) 512-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

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Books

TRUMAN

By David McCullough

Simon & Schuster • 1,117 pp • \$29.95

PLAIN TALK ABOUT TRUMAN

Once a decade or so, Americans develop Trumania, a strange nostalgia for a man they once couldn't wait to toss out of the White House. In part, Ross Perot's popularity is the latest manifestation of this phenomenon, in which the myth of Harry S. Truman has all but overshadowed the impressive reality of the man.

David McCullough, who earlier made the builders of the Brooklyn Bridge and the Panama Canal vividly human, has now come to the rescue of the historical Truman in an affectionate, but balanced, biography of the 34th President. It reveals Truman as a man of far greater complexity and depth than the plain-speaking "man of the people" cartoon to whom Perot is so often compared.

Truman was called many things, but never "nonpolitician." Confederate sym-

pathies still burned bright, and partisanship was a birthright in the western Missouri of his childhood. "They were Baptists and they were Democrats," McCullough says. Truman entered politics through Kansas City's notorious Pendergast machine, which installed him as a county judge. In 1934, T. J. Pendergast tapped Truman for the U. S. Senate race. Until he distinguished himself as head of a committee investigating defense waste and fraud, there was little in Truman's career, besides a reputation for personal honesty, to distinguish him from a host of hacks.

One of the strongest sections of McCullough's book depicts Truman's ascension to the Vice-Presidency. Although many of those closest to Franklin Roosevelt were convinced that he would not live through a fourth term, the Vice-

Presidential selection process was remarkably casual. After agreeing to drop the uncomfortably leftist Henry Wallace, FDR showed little interest in his running mate. In the end, Roosevelt offered party bosses a choice between Truman and Justice William O. Douglas.

While *Truman* is extremely readable and, at times, gripping, McCullough neither invents conversations nor goes beyond the evidence. The record, he says, leaves it unclear whether FDR actually preferred Truman. The two men barely knew each other and met privately only twice before Roosevelt's death, less than three months into his term.

It has long been fashionable to say that Truman rose to the occasion. But McCullough makes it clear how sweeping an understatement that is, how little the public appreciated Truman's abilities, and how both his success and his unpopularity were the natural result of rock-solid moral courage.

Probably no man has ever assumed the Presidency under worse circumstances. Truman felt himself the inadequate successor of a national idol. The war in Europe was ending, but he immediately had to deal with the botch that the ailing Roosevelt had made in Yalta.

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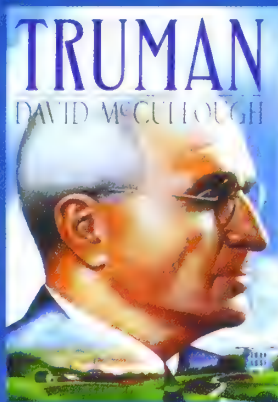
The system helped cut costs, **improve customer service**, and enhance the company's competitive agility. Riser now uses a consolidated

data processing system to coordinate all critical activities, from product pricing to warehouse management. The system has **lowered operating costs** while improving Riser's customer service.

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ready it was clear that the Soviet Union was moving quickly from difficult ally to dangerous adversary. Then, there was the atomic bomb: Truman had known nothing of it and quickly had to decide whether it should be used. It brought a string of domestic and foreign crises: inflation and strikes, the first stirrings of the civil-rights movement, the Soviet-orchestrated coup in Czechoslovakia, the Berlin blockade, and the division of South Korea. Truman was far from a perfect President, which this friendly biography makes clear. He often seemed befuddled by events and tended to surround himself with cronies. But when it really counted, Truman's good sense triumphed. With the postwar order coming unglued, he wisely chose General George C. Marshall to head the State Dept. Truman backed Marshall's European reconstruction plan through Congress, aided anti-communist forces in Greece and Turkey, and faced down Stalin with the Berlin lift. He ordered the armed forces de-

The same attribute accounted for Truman's success and unpopularity: Moral courage



segregated and, defying both his origins and barons of his own party, became the first President to push hard, albeit unsuccessfully, for civil rights.

Truman's stunning upset of Thomas E. Dewey despite the three-way split of the Democrats in 1948 is the stuff of myth, and McCullough makes the most of the drama. But victory was a prelude to a term of misery. The party was in shambles. Anticommunist witch hunts made politics a mine field. The outbreak of war in Korea in 1950 sealed Truman's

fate. Douglas MacArthur's insubordination left the Commander-in-Chief little choice, but Truman paid a terrible political price for firing him.

In the end, it was another old soldier, Marshall, who spoke what could be Truman's epitaph. At a time when the Secretary of State was embroiled in a tense debate with Truman over recognition of Israel, Marshall said: "The full stature of the man will only be proven by history. But...there has never been a decision made un-

der this man's Administration, affecting policies beyond our shores, that has not been in the best interest of this country. It is not the courage of these decisions that will live, but the integrity of the man."

Alas, the nation today has no one who can speak such words with such authority. And worse, no one of whom they can be spoken.

BY STEPHEN H. WILDSTROM

Wildstrom is senior news editor of this magazine's Washington bureau.

QUESTION:

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TRICKLE-DOWN TRIUMPH: IN THE '80s, THE POOR GOT...RICHER

BY PAUL CRAIG ROBERTS



Two new studies—one of them by liberal Democrats—disprove the charge that Reaganomics aggravated the income gap. That won't keep bogus data from being repeated *ad nauseam* during the campaign

During the past five years, disingenuous academics and their shills in the media have used discredited income statistics from the Congressional Budget Office to create the false impression that President Ronald Reagan rigged the tax system to make the rich richer and the poor poorer. In the latter stages of this campaign, the CBO felt compelled to issue a report in March, 1992, disassociating itself from the disinformation purveyed by the likes of Paul R. Krugman of Massachusetts Institute of Technology and Sylvia Nasar of *The New York Times*.

Now comes a report from the Urban Institute co-authored by liberal Democrat Isabel V. Sawhill and research assistant Mark Condon. Using well-established income survey data, Sawhill and Condon examined income growth and mobility during 1967-1976 and 1977-1986. They found that during the earlier period, the average family income of the poor (defined as those beginning the decade in the bottom income quintile) grew 12 times faster than the income of the rich (defined as those in the top quintile). During the latter period, the income of the poor grew 15.4 times faster than the income of the rich.

PRIMROSE PATH? The co-authors conclude that when individuals are followed instead of artificial income quintiles, "the rich got a little richer and the poor got much richer." Tracking individuals is crucial to understanding income distribution in the U.S. because there is so much income mobility: The rich and poor will always be with us, but they won't be the same people over time. Sawhill and Condon find that about half of those who began in the bottom quintile moved into higher quintiles (some all the way to the top) and about half of those who started at the top moved down (some to the bottom). More than two-thirds who started out in the middle moved up or down.

"This pattern," the co-authors note, "may be surprising to the general public, which has been led to believe that the poor were literally getting poorer over the last decade or two, and that the incomes of the rich were skyrocketing. This is simply not true."

A similar study was recently released by the U.S. Treasury, which tracked the personal income tax returns of 14,351 taxpayers over a 10-year period, 1979-88. The Treasury found even more income mobility than did the Urban Institute, primarily because the Treasury study—unlike the Urban Institute's—did not truncate income mobility by limiting the sample to those between 25 and 54 years of age.

The Treasury study found that by 1988, 86% of the taxpayers who started off in the bottom income quintile in 1979 had moved up.

Of these upwardly mobile poor, 40% reached the top two income quintiles. The Treasury found that upward income mobility characterized the preponderance of taxpayers. For example, of those who began the decade in the middle income quintile, 33% remained in place, 19.7% fell into lower income quintiles, and 47.3% moved into higher income quintiles.

In contrast, the very rich who began the decade in the top 1% had a hard time maintaining their positions. Less than half remained in place at the end of the decade, with 52.7% losing ground and some falling all the way to the bottom quintile.

FACT SHOCK. The two studies, both thorough based on valid data and scientific sample show that the charge that Reagan's policies made the rich richer and the poor poorer is pure propaganda. This, of course, won't stop Democratic Presidential candidate Bill Clinton from repeating the charge *ad nauseam* throughout the political campaign.

The Treasury and Urban Institute studies on income mobility buttress the careful work of economist Marvin H. Koters, recently nominated as Commissioner of the Bureau of Labor Statistics, and former commissioner Janet L. Norwood. Both economists found that during the 1980s, higher-paying jobs grew more rapidly than lower-paying ones, putting the lie to the charge that the 20 million new jobs created during the long Reagan expansion were low-wage, dead-end jobs. If these were fact "hamburger-flipping" jobs, it would not be possible for the Treasury to find that at the end of the decade, more people who began in the bottom income quintile had reached the top than remained in the bottom.

These conclusions are further supported by recent Federal Reserve studies of the distribution of gains in wealth. The Federal Reserve found that during the 1983-89 period, the percentage gain in real net worth of the top income quintile lagged far behind the wealth increases experienced by the middle income groups.

In the assessment of the 1980s, facts have not had much influence. When disinformation is used to shape public discourse on economic policy, the country is pushed into dead-end directions. Clinton's recent claim that "during the 1980s the wealthiest 1% of Americans got 70% of the gains" has no basis in fact. The same bogus data show that the last time the Democrats were in the White House, they got 100% of the income gains. Imagine Governor Clinton's shock when he discovers that the "data" show that Reagan elevated the poor and middle class from a zero share of income gains to a 30% share.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

Hint: The answer is
on everyone's lips.



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Economic Trends

BY GENE KORETZ

THE RECENT DIP IN LAYOFFS MAY NOT LAST

Does the recent deceleration in announcements of permanent staff cuts by major corporations signal a winding down of the long travail of corporate restructuring? Dan Lacey, editor of the newsletter *Workplace Trends*, which monitors such announcements, is dubious. He notes that "last year, staff cutting also tapered down in June, only to explode after the July Fourth holiday and gain strength through the year."

Lacey reports that more than 170,000 staff cuts were announced through May 31 of this year, up 2.6% over 1991. Last year, he says, "many CEOs looked at their weak balance sheets at midyear, and then issued orders to cut and cut hard. It could happen again."

ARE PENSION-FUND MANAGERS REALLY EARNING THEIR FEES?

It's hard to conceive of what today's mammoth stock markets would look like without the active participation of pension funds. They currently hold more than \$1 trillion in equities, or 25% of the total value of U.S. stocks. Moreover, about 80% of such holdings belong to defined-benefit pension plans, which allow corporate sponsors to profit directly from superior investment returns by reducing pension contributions or even recapturing surplus assets.

Given such incentives and the huge amounts of cash involved, one would think that pension funds would do fairly well in the investment sweepstakes—particularly since a host of banks, insurance companies, and investment counselors compete vigorously for the job of managing such funds. But the surprising truth, according to a new study by economists Josef Lakonishok, Andrei Shleifer, and Robert W. Vishny in the latest *Brookings Papers on Economic Activity*, is that money managers lagged significantly behind the stock market itself during the lush bull market of the 1980s.

Drawing on data covering 769 all-equity pension funds with more than \$120 billion in assets, the researchers found that on average the funds' annualized returns over each three-year interval (the typical period money managers claim they need to prove their expertise) lagged behind the Standard & Poor's

500-stock index by 1 percentage point and by 2.1 percentage points when the funds' returns are weighted by size. Average one-year returns produced even greater underperformance. And that's not counting management fees or lower returns on cash holdings.

The study also found that the funds would have performed just as well or in some cases even better if their stock portfolios at the start of a year had been frozen for 6- or 12-month periods. In other words, active trading over these intervals didn't seem to pay off.

To be sure, funds with high equity turnover rates over a three-year period did do significantly better than funds with lower activity. And the top 25% over a three-year period did outperform the lower 75% by an appreciable margin in the following three-year period. But these skilled managers still fell short of the returns posted by the S&P 500 by an average 1.5 percentage points a year.

PENSION FUNDS DIDN'T BEAT THE BULL MARKET

Three-year period	ANNUAL RETURNS OF:		
	EQUITY PENSION FUNDS		S&P 500
	Average	Weighted average*	
1983-85	17.4	16.6	19.8
1984-86	17.6	16.3	18.5
1985-87	17.7	16.9	18.1
1986-88	13.0	12.8	13.3
1987-89	16.4	15.3	17.4

*WEIGHTED BY VALUE OF STOCK HOLDINGS FOR 769 ACTIVELY MANAGED EQUITY PENSION FUNDS

DATA: JOSEF LAKONISHOK, ANDREI SHELIFER, AND ROBERT W. VISHNY

The puzzle, in light of these results and the fact that management fees subtract an additional half a percentage point or so from fund returns, is that money managers have survived and flourished in recent years. Why haven't more funds dismissed their advisers and turned to passive investment strategies such as index funds? The answer, the researchers suggest, may be more sociological than economic.

Since corporate treasurers and their staffs are generally responsible for hiring money managers, monitoring performance, and switching to new managers when returns lag, the study notes that they would lose power if they turned to passive investment strategies. At the same time, using outside managers allows treasurers to deflect the blame if returns lag. For their part, money managers add to the aura of significant activity by "schmoozing"—constantly re-

porting on investment strategies and providing other forms of hand-holding.

Notwithstanding these blandishments, the researchers conclude that most equity pension fund managers subtract rather than add value to fund performance. And they predict that economic considerations will ultimately prevail and bring about important changes in the money management industry. The big question they say, is "how fast?"

TOP COLLEGE GRADS STILL DRAW TOP DOLLAR

Demand for new college graduates may be down this year, but large employers are still raising the ante for those with strong academic records. According to a recent survey of 263 major corporations by Coopers & Lybrand, salary offers have typically been rising 3% to 5% higher for high-ranking 1992 college grads, with average increases for those with bachelor's degrees ranging from 3.2% for majors in computer science to 10.3% for agricultural science majors.

The survey notes that recruitment of MBAs at top business schools remains strong, with average starting pay rising from \$52,400 in 1991 to \$53,700 (counting sign-on bonuses or incentive packages). MBA graduates of the Massachusetts Institute of Technology garnered the highest salary offers, averaging \$58,000.

LOW INFLATION IS MAKING DEBT EVEN TOUGHER TO PAY OFF

Private nonfinancial debt edged up just 2% over the past year—the smallest rise on record. And according to economist Bruce Steinberg of Merrill Lynch & Co., consumers and businesses are likely to keep using less credit for some time, slowing the recovery.

During the 1973-75 and 1980-82 recessions, notes Steinberg, the real value of private nonfinancial debt fell significantly—by 3.4% and 4.3%, respectively. The time around, though, real private debt, which soared during the 1980s, is down only 2.3% from its 1990 peak.

During past recessions, explains Steinberg, high inflation bailed out borrowers by eroding the real value of their debt. In this cycle, debtors are enjoying such luck. "Absent the quick fix provided by inflation," he says, "the current process of reliquification promises to be a drawn-out affair."

WHY THIS REBOUND HAS SO LITTLE OOMPH

This sloth of a recovery is starting to get on people's nerves. With only 18 weeks until the Presidential election, the White House is yelling at the Federal Reserve to cut interest rates. The Fed is bickering within itself. Households, facing heavy debts and tight wallets, are pointing fingers at both crews. And businesses, after slashing costs and lifting productivity and profit margins, are all revved up with no place to go.

Disappointing data on home sales, jobless claims, factory orders, and retail sales have only heightened the tension. More recently, the nation's purchasing managers say that growth in the industrial sector slowed in June. The leading indicators, up 0.6% in May, point to recovery but not as convincingly as they typically do early in an upturn. And the index of coincident indicators, which tracks the economy in the here and now, shows hardly any sign of recovery at all (charts).

In fact, economists increasingly believe that another cut in interest rates—perhaps a bold one—is justified to ensure the recovery's survival. The present combination of economic torpor, an undeniably tranquil inflation outlook, and the listless behavior of money and credit gives the Fed a powerful call to action.

Wait a minute. Fed easing? Economic torpor? What kind of recovery is this anyway? The quick answer is, painfully slow. The economy grew 2.7% in the first quarter, and it was struggling to match that pace in the second quarter. First-half growth is half the norm for most upturns, and it is hardly fast enough to bring down the jobless rate. Clearly, the rebound is shaping up to be the weakest in the postwar era.

LONG RATES AREN'T LEADED YET Why? First and foremost, the Fed has made it clear by both word and action that it wants a moderate recovery that will keep pressure off inflation. As long as the budget deficit freezes the option of fiscal stimulus, the central bank has the only policy game in town, and it can maneuver interest rates to get what it wants. The Fed's policy committee sat down on June 30 and July 1 for its last meeting before Chairman Alan Greenspan goes to Capitol Hill in late July for his twice-yearly report on monetary policy. If the Labor Dept.'s job numbers, released on July 2, paint a sufficiently drab picture of the economy, analysts are betting that the Fed will

put its internal disagreements aside and ease sometime before Greenspan's testimony—and that banks will respond by cutting their prime rate from 6½%.

But despite the fall in short-term interest rates, the Fed has been unable to effect a commensurate drop in long-term rates. With a flood of Treasury debt washing over the credit markets, traders worry about the potential inflationary consequences of all that paper, and they demand higher yields to protect against possible losses.

As a result, the yield spread between long- and short-term Treasury securities is the widest in more than three decades. Lower long rates are critical to housing and other big-ticket purchases, but more important, they speed up the reliquification of debt-burdened households.

HOUSEHOLD FINANCES ARE STILL A PROBLEM

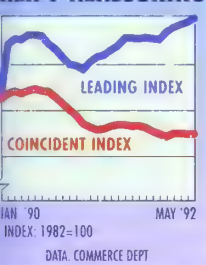
Right now, that process isn't going too well, and a healthy consumer sector is paramount for a solid recovery. Despite the drop in installment debt outstanding, heavy mortgage obligations are keeping total household debt as a percentage of aftertax income near a postwar record. The yearly growth rate of consumer IOUs has fallen to only 4.2%, the slowest pace on record, but household assets are rising at less than half that pace, according to economists at Merrill Lynch & Co.

The folks at Merrill also point out that inflation will not be around to help bail out consumers by eroding the real value of their debt. In the past, faster inflation allowed consumers to pay back loans in dollars that were worth less than the ones they borrowed. On top of all this, slow income growth and low savings mean that household reliquification will be a drawn-out affair—and that will weigh heavily on spending.

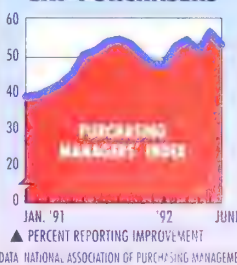
Consumers bought at a normal recovery pace of greater than 5% in the first quarter, but their financial foundation has not improved rapidly enough to maintain such heady growth. Real consumer outlays, adjusted for inflation, rose by 0.2% in April and 0.3% in May. Stronger car sales in June and the large response to cut-rate airfares suggest that buying rose by a similar amount last month. But even with another healthy gain, real spending probably rose at an annual rate of barely 1% in the second quarter.

Because households remain wary about taking on more debt, income gains will largely determine this

THE INDICATORS AREN'T REASSURING



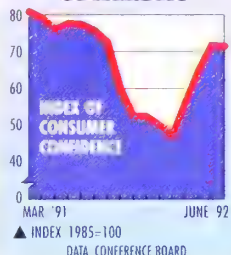
JUNE'S PACE SLOWED SAY PURCHASERS



Business Outlook

year's pace of buying. Last year, growth in real aftertax income ground to a halt during the second half, causing the recovery to poop out. So far this year, incomes are growing sufficiently to generate a spending recovery, but don't expect any speed records. Real income rose 0.1% in May, after dipping 0.2% in April, and in the first half, it grew at an annual rate of about 2.5%.

CONSUMERS REMAIN OPTIMISTIC



Falling interest earnings, nearly 14% of household income, are an unusually heavy drag on this recovery. Personal interest income is in its steepest slide on record. During the past year, real aftertax income has grown 1.7%. But if it had not been for a 9% plunge in real interest earnings, real income would have been up by 3.8%.

Incomes apparently are growing fast enough to keep consumers in a relatively upbeat mood. The Conference Board reports that its index of consumer confidence stood at 71.7 in June, slightly below the 71.9 level of May, but still a high reading. Households' feelings about the future are optimistic compared with their mopey attitudes earlier this year (chart). The board notes that the Presidential campaign may be unsettling, but it says the big worry remains job prospects.

HOUSING TAKES A BAD TUMBLE

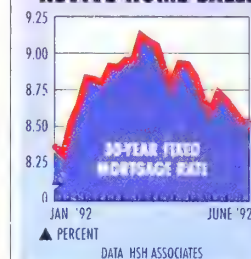
Unlike past recoveries, job growth in this upturn is unusually slow. A big reason is cost-cutting and restructuring, particularly by service companies. Service producers generate four-fifths of all payroll jobs, but so far this year, service employment has risen by only 70,000 jobs a month. That's about half the pace of past recoveries. The past recession was different in that workers weren't just temporarily laid off. Many jobs, especially white-collar positions, were permanently eliminated.

Slow growth in jobs and incomes, along with high long-term interest rates, makes a tough climate for housing (page 30). Moreover, much of the recent gains in consumer spending have been related to the year-long housing recovery. And that's why the recent softness in home buying is so troubling.

Sales of existing homes dropped 1.7% in May, and purchases of new single-family homes fell by an unexpectedly large 5.6% in May, to an annual rate of 501,000. That was the fourth decline in a row—something that hasn't happened since late 1990. Sales in the West were especially weak. They dropped by a record 34.4%, to 105,000 pace—the lowest in 10 years. That looks like an aberration, however. June sales in the West are likely to bounce back, giving a boost to the national data.

More important, home sales will get some help this summer from falling mortgage rates. The average rate on a 30-year fixed mortgage has dropped from 9.08% in March to 8.52% in late June. That's the lowest rate since January (chart). Indeed, the lackluster showing in May may have reflected the spike in rates in March and April. That's because consumers are unlikely to bid on a home when rates are rising, and the sales data count only home sales that are actually closed—which usually happens one or two months after the initial bidding.

LOWER RATES WILL REVIVE HOME SALES



The list of depressants on the recovery also includes defense cuts and the interrelated problems of sour real estate deals and many financially fragile banks. When you add everything up, you get an unprecedented burden for an upturn to carry. However, there is nothing in the data to suggest that the economy is not up to the task. It's just going to be a slow—and frustrating—trip.

THE WEEK AHEAD

CAR SALES

Monday, July 6

New domestically made cars probably sold at an annual rate of 6.5 million for the last 10 selling days of June, say economists surveyed by MMS International, a division of McGraw-Hill Inc. The expected pace would put car sales at 6.5 million for the entire month. Car sales have been gathering strength, with 6.3 million new autos sold in May, up from 6 million in April. The expected June rate would be the highest since July, 1991.

INSTALLMENT CREDIT

Tuesday, July 7

The MMS consensus is that consumers pared their debt levels by an additional

\$500 million in May. If so, that would be the fourth consecutive decline, including a \$3.8 billion drop in April. Auto loans likely fell as consumers continue to switch to leasing, instead of buying, cars. And sluggish retail sales suggest consumers left their credit cards at home in May. Some installment credit has been replaced by the increased use of home equity loans. But in general, households are borrowing less.

INITIAL UNEMPLOYMENT CLAIMS

Thursday, July 9, 8:30 a.m.

New claims for state unemployment insurance benefits probably stood at an annual rate of 410,000 for the week ended June 27. That would be less than the 422,000 filed during the week of June 13.

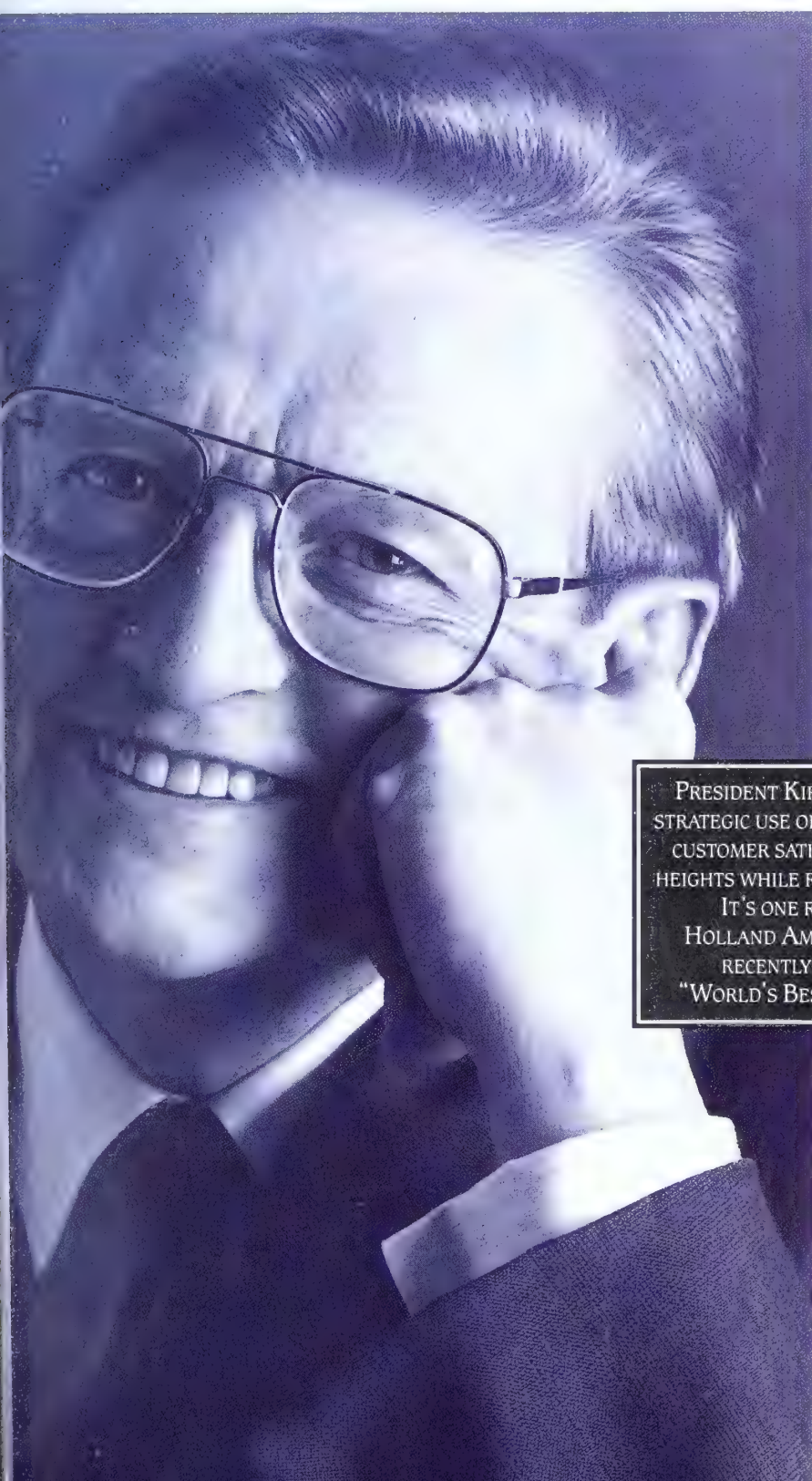
Jobless claims have been falling steadily since the first quarter, but the weekly data have yet to fall below 400,000.

PRODUCER PRICE INDEX

Friday, July 10, 8:30 a.m.

Producer prices of finished goods probably increased by 0.3% in June, project the MMS economists. That's suggested an increase in fuel prices. Even so, inflation at the producer level is little threat to this economy. Prices rose 0.4% in May but were up only 1.2% from a year earlier. Excluding volatile food and energy costs, prices likely advanced by 0.2% in June, following a 0.6% increase in May. A rise in tobacco prices led that gain. Nonfood, nonfuel prices have risen 2.1% over the past year.

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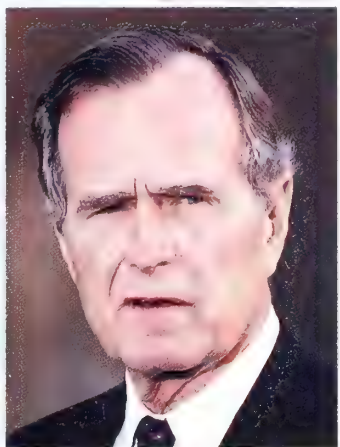
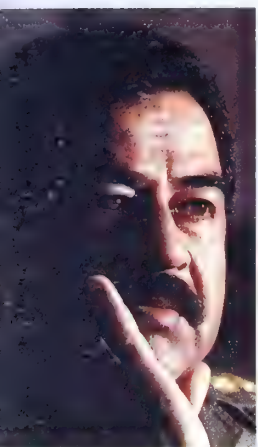
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WAS IRAQGATE BUSINESS AS USUAL?

THE U.S. MAY BE HIDING CORPORATE ARMS DEALS WITH SADDAM



JULY 13, 1992



One woman, a federal prosecutor, allegedly carried a magnet in her purse to erase computer records containing crucial evidence. Another woman, a Customs inspector pursuing an illegal-exports case, was subjected to a grueling in-house probe of her professional conduct. And a third, a corporate lawyer, says she became the target of threats and intimidation when she blew the whistle on her bosses.

What links these three women? The politically charged investigation of the Atlanta branch of the Banca Nazionale del Lavoro and its illegal scheme to finance exports to Iraq with billions in federally guaranteed loans—the affair that has become known as Iraggate.

**REVELATIONS
THAT THE U. S.
UNWITTINGLY
AIDED SADDAM'S
NUCLEAR
PROGRAM HAVE
TARNISHED
BUSH'S GREATEST
FOREIGN
POLICY TRIUMPH**

Gale McKenzie, an assistant U.S. attorney in Atlanta, is the government's chief prosecutor in the BNL case. When McKenzie's probe turned up records tying BNL to an Iraqi front company near Cleveland, Customs Agent Jill Fehr began investigating. Later, Marianne Gasior, a corporate attorney, came forward with information that appears to connect her former employer, Kennametal Inc., to BNL and an Iraqi procurement network with links across the U.S.

Gallons of ink already have been spilled telling the story of Iraggate. But the tale of these three women, as pieced together by BUSINESS WEEK, while just a slice of the broader scandal, suggests strongly that the Bush Administration has thwarted a public airing of the U.S. role in Iraq's massive military buildup. What's more, in shielding its actions, the White House also has thrown a cloak over the helpful hand given to Iraq by U.S. businesses, ranging from such relative small fry as Kennametal to giants such as Hewlett-Packard Co.

Revelations of U.S. aid in the buildup of Iraq's nuclear capabilities already are tarnishing the Administration's greatest foreign policy triumph, Operation Desert Storm. The President himself has admitted that his prewar attempts to moderate

Saddam Hussein's bellicose behavior "failed." And in this election year, scrutiny of that misguided policy is growing fiercer as congressional Democrats cry louder and louder for a special Iraggate prosecutor. Charges Representative Charlie Rose (D-N. C.): "I believe that documents have been falsified, government officials have lied to Congress, and there's been a cover-up... by the White House."

The White House and the U.S. Attorney's office in Atlanta flatly deny any cover-up or improper behavior. And most of the companies that this story identifies as trading partners with Iraq, including Kennametal, say only that they had legal export licenses and did nothing wrong.

But the tale of McKenzie, Fehr, and Gasior raises troubling questions. BUSINESS WEEK consulted a myriad of independent sources for this story: court records, congressional testimony, and documents subpoenaed by Congress. Also, BW conducted two dozen interviews with congressional sources, Administration officials, attorneys, and corporate executives. Of the three women mentioned above, only Gasior agreed to be interviewed. McKenzie declined to comment. And Fehr, a source close to her explains, doesn't want to jeopardize her career any further.

Surely, none of the women knew what they were in for back in August, 1989, when federal agents burst into BNL's posh offices on the 20th floor of Atlanta's Gas Light Tower. Led by the U.S. Attorney's office there, a task force of a half-dozen U.S. agencies carted off stacks of bank records. McKenzie, an experienced prosecutor, coordinated the investigation.

PAPER TRAIL. Within two months, investigators learned that the Atlanta BNL branch was Iraq's principal source of credit in the U.S., lending it \$5.5 billion—\$2 billion of it guaranteed by the U.S. Agriculture Dept. The guaranteed loans, which were supposed to buy U.S. foodstuffs, were instead used mostly to purchase U.S. industrial machinery and technology with military applications, including nuclear weapons production, according to an Agriculture Dept. memo that followed an Oct. 13, 1989, meeting among senior Agriculture and State Dept. officials. Through an analysis of bank and other documents, BUSINESS WEEK has learned that illegal BNL letters of credit financed exports to Iraq by General Motors Corp., among other companies. GM declined to comment.

Evidence from the BNL probe stacked up so quickly that in January, 1990—eight months before Iraq invaded Kuwait—McKenzie and her boss, Robert L. Barr Jr., then Atlanta's U.S. Attorney, predicted an indictment was at hand. With the evidence obtained by McKenzie's team, federal agents elsewhere began their own probes. Customs Agent Fehr, an 11-year agency

**DID THE
U. S. GUARANTEE
LOANS THAT WERE
USED TO PAY FOR
IRAQI BOMBS?**

Top of the News

veteran, led the Cleveland investigation. She zeroed in on the export business of Matrix Churchill Corp., the Solon (Ohio) arm of Matrix Churchill Ltd., a British maker of precision machine tools.

It didn't take her long to establish that Matrix actually was, as a Customs report asserts, an "Iraqi front company." Its mission, according to current and former Customs officials: to procure U.S. technology and equipment for the Iraqi military buildup, particularly its nuclear weapons program. A month after the Iraqi invasion of

to arrange fraudulent credits for Iraq.

Key Democrats in Congress criticized the indictment's narrow focus. One of many questions: Why was Matrix Churchill named only as an unindicted co-conspirator? After all, the indictment characterizes the company's dealings with BNL as illegal. But House investigators point out that a full airing of Matrix' activities would highlight the role of U.S. business in the Iraqi procurement network.

Matrix isn't the only player that has escaped indictment. Marianne Gasior and

in exchange for a financial settlement.

At the same time, Gasior was trying to tell the FBI and U.S. Attorney in Pittsburgh about Kennametal's potentially illegal Iraqi dealings. But "the door slammed in my face," she says. The Pittsburgh office and the city's U.S. Attorney did not return calls seeking comment.

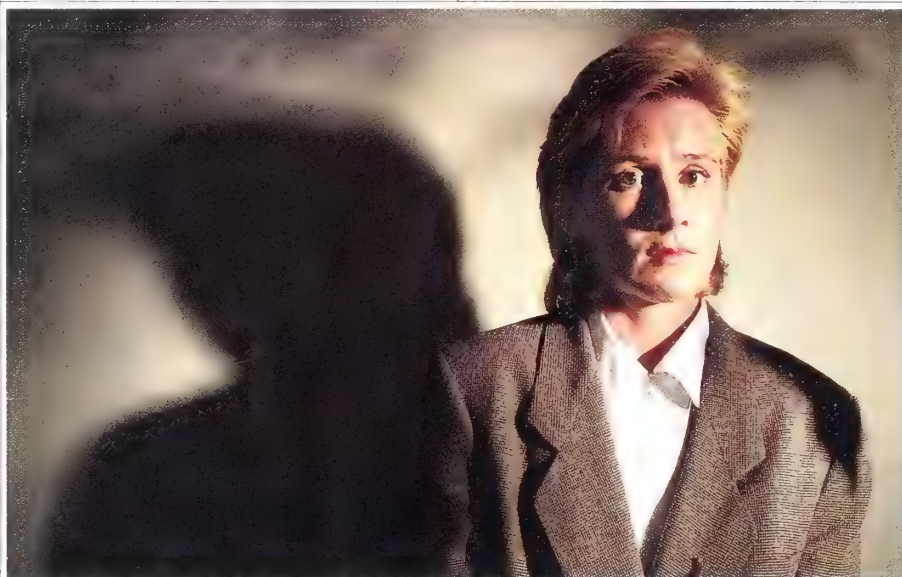
By chance, Gasior learned of Fehr's investigation and phoned her in early 1991, a month before the BNL indictment came down. Fehr independently had documented Kennametal's questionable involvement

with Matrix. But Gasior helped the agency establish that Kennametal benefited from BNL letters of credit.

While Kennametal is just one of hundreds of U.S. industrial exporters to Iraq, its case shows how the Iraqis obscure purchases of industrial equipment and technology. In sworn congressional testimony on Aug. 1, 1991, Gasior explained how Kennametal arranged to ship tungsten carbide cutting tools, which have numerous machine-making applications, to Iraq via German defense company (box).

A second deal is detailed in internal Kennametal documents. In the transaction, Kennametal worked with Matrix Churchill and Chilean arms merchant Carlos Cardoen to supply Iraq's NASSR munition complex. In late 1988, Iraq, through Matrix, contracted with Cardoen for \$16.2 million worth of machine tools for arms projects, to be financed with a BNL letter of credit later identified in the BNL indictment as one with a fraudulently obtained U.S. guarantee. Kennametal signed on as a subcontractor and procurement agent for a price of more than \$500,000.

That August, while work under the contract was proceeding, federal agents raided BNL's Atlanta office. Three months later, British authorities raided Matrix Churchill's London office. The raids made payment for the parts problematic. In December, 1989, attorney Joe D. Whitley filed suit on Matrix's behalf to recover payment from BNL Atlanta for the NASSR contract.



GASIOR SAYS THE FBI "SLAMMED THE DOOR" ON HER EVIDENCE ABOUT KENNAMETAL'S IRAQI DEALINGS

Kuwait, the U.S. Treasury used its emergency powers to close Matrix Churchill.

By that time, however, the Atlanta U.S. Attorney's office had changed its tune. Months dragged by without an indictment of BNL. Congressional investigators say that other agencies started complaining about interference from Justice Dept. headquarters in Washington.

The reason, those investigators suspect, is that Justice officials took direct control of the BNL probe. Congressional sources assert that Justice then attempted to derail the House Banking Committee's inquiry into the Administration's role in Iraq's military buildup. The banking panel's chairman, Representative Henry B. Gonzalez (D-Tex.), charges that former U.S. Attorney General Richard L. Thornburgh "delayed the BNL indictments and repeatedly tried to have the investigation of the committee obstructed and curtailed under the false pretense that it would endanger national security." Replies Thornburgh: "The allegations are absolutely false."

NARROW FOCUS. The grand jury in Atlanta didn't issue its indictment until Feb. 28, 1991, near the end of the gulf war. The 347-count indictment limited its scope to three former bank officials, an Iraqi bank and four Iraqis, and a Turk and his trading company. All were charged with conspiring

congressional investigators believe that Kennametal, a \$600 million maker of machine tools based in Latrobe, Pa., illegally traded with Iraq and was a key link in the supply network. In January, 1990, Gasior says, she was forced out after nine months as a Kennametal attorney for disagreeing with top management over export procedures. After she left the company, she says, she started receiving threatening phone calls from Kennametal employees. Worse, she says, she was chased by a car one day when she was driving near her home. "It scared the living daylights out of me," she says. She dropped her threat to sue Kennametal for harassment

U.S. PARTS FOR IRAQ'S WAR MACHINE

Marianne Gasior, former attorney of Kennametal Inc., a Latrobe (Pa.) machine-tool maker, has told Congress how her onetime employer helped supply Saddam Hussein's war machine. Here is her description of the elaborate steps Kennametal took to fill one Iraqi order:

1 Associated Industrial Distributors, an Atlanta-based Iraqi front company, orders \$12.2 million of machine tools from Kennametal's German subsidiary and two other German companies. The final letters of credit from the central bank and the office of Italy's Banca d'Italia (BINI)

the next year, on Aug. 3, the day after Iraq invaded Kuwait, President Bush named Whitley to succeed Barr as Atlantic City's U.S. Attorney. Whitley thus became McKenzie's boss, but he immediately resigned himself from the BNL investigation. Kennametal disputes the accounts of the deals and says law enforcement authorities have cleared it of any wrongdoing. "Like thousands of Western companies, Kennametal had some lawful business with Iraq prior to its outlaw invasion of Kuwait," says a spokesman.

Although federal prosecutors had largely ignored Gasior, her congressional testimony got McKenzie's attention. In late August, she demanded that Gasior testify before an Atlanta grand jury. When Gasior delayed her appearance because of illness, McKenzie threatened to have her arrested. Only after House Speaker Thomas S. Foley (D-Wash.) intervened on Gasior's behalf did the prosecutor back off. A few weeks later, Gasior did testify in Atlanta. However, she and two others whom McKenzie subpoenaed say the prosecutor dwelt only on irrelevant issues.

Why such bizarre behavior by a federal prosecutor? Rose argues that McKenzie was acting at the direction of superiors in Washington out to sabotage her agencies' BNL investigations. He claims an Internal Revenue Service agent is willing to testify under oath that in the spring of 1991, McKenzie carried a magnet in her purse to meet during which BNL records were being loaded into a computer. She destroyed the information, he says, by putting the magnet on top of the computer. "That's total nonsense," responds McKenzie's supervisor, Gerrilyn G. Brill. Fehr first got the McKenzie treatment in April, 1991, when McKenzie requested that Cleveland Customs office send her all "legally seized pieces of evidence" involving Matrix. What made the request odd, say congressional and Customs sources, is that McKenzie had reviewed the warrant

that the Customs office used to obtain its evidence. Then, in October, 1991, McKenzie instigated an investigation of Fehr for allegedly leaking grand jury information to Gasior, according to several independent sources. Early this year, Fehr was cleared of any wrongdoing. Neither Customs nor Brill would comment on the matter.

To critics in Congress, it all adds up, as Gonzalez puts it, to "a coverup mechanism." Other moves suggest a concerted Administration effort. The Commerce Dept. has reported that in late 1990, in consultation with the State and Defense Departments, it altered data requested by

Could U. S. companies have been blind to Iraq's military use of their exports? "Almost certainly not," says Kenneth R. Timmerman, author of *The Death Lobby*, a book on Iraq's military buildup. Companies including Hewlett-Packard, Rockwell, and Tektronix sold high-performance electronics to Iraq's major missile research center and to the Iraqi Atomic Energy Commission, says Gary L. Milhollin, director of the University of Wisconsin's Project on Nuclear Arms Control. The three companies insist that they legally sold equipment that they believed to be for civilian uses in Iraq.



McKENZIE: DID WASHINGTON CUT HER INVESTIGATION SHORT?



ROSE: THE DEMOCRATIC CONGRESSMAN CHARGES A "WHITE HOUSE COVERUP"



SHOOB: THE FEDERAL JUDGE IS CALLING FOR A SPECIAL PROSECUTOR

Congress on 68 licenses for exports to Iraq, including a billion-dollar sale of military trucks. Some changes, such as the one covering the trucks, made it appear the goods were for civilian rather than military uses and were "unjustified," says the Commerce Dept. inspector general.

LEGAL TRADE. More intriguing, in the five years before Desert Storm, Commerce licensed more than \$1.5 billion worth of strategically sensitive U.S. exports to Iraq. By law, Gonzalez cannot reveal the names of the licensees, but what their licenses demonstrate, he says, is that "our government knew about the military uses of this technology and did nothing to stop it."

Indeed, most recent trade with Iraq was legal. Under the Reagan and Bush Administrations, the U.S. tilted toward Iraq when Iran appeared to have the upper hand in their eight-year war. It was then that Iraq became eligible for U.S. agricultural credit guarantees and other sympathetic trade treatment. In 1985, with a green light to pump up business in Iraq, dozens of U.S. blue-chip companies formed the U.S.-Iraq Business Forum.

Today, the tide may be turning in the effort to force the Administration to air the details of its failed Iraq policy. Just last month, Christopher P. Drogoul, a former Atlanta BNL manager, struck an 11-hour plea bargain with the Justice Dept. in which he agreed to plead guilty to 60 counts. That set off alarm bells for U.S. District Judge Marvin H. Shoo, who has joined the call for a special prosecutor to look into BNL and Iraq's arms-procurement operation.

Even if Congress manages to force the Administration to name a special prosecutor by November, any investigation will certainly last beyond the election. While it's a messy, inevitably politicized business sorting through the wreckage of a major miscalculation in foreign policy, it's business that must be done.

By Michael Schroeder in Pittsburgh

3 To avoid having to obtain a Commerce Dept. export license, says Gasior, Kennametal lists its customer as Krupp Widia, one of the other German companies, rather than Iraq

4 Kennametal delivers its portion of the Iraqi order, \$100,000 worth of tungsten carbide cutting tools to

machine artillery shells and other weapons parts, to Krupp Widia. Krupp Widia delivers to an Iraqi munitions complex



NOWHERE IS THE HOUSING DOWNTURN MORE EVIDENT THAN IN SOUTHERN CALIFORNIA

HOUSING SPARKED THE RECOVERY, BUT NOW IT'S FALLING—HARD

Layoffs have many too nervous to commit to mortgage payments

The rows of empty new houses lining Southern California's hillsides easily weathered a June 28 earthquake, the region's worst in 40 years. But just two days later, a jolt of another sort set off shock waves that may be more damaging to the area: Hughes Aircraft Co., which has already laid off 3,000 workers this year, announced that an additional 9,000 will soon get pink slips. For the workers and their families, the news is devastating. For the state's housing industry, it's a disaster.

The sea of "For Sale" signs stretching from San Diego to Hartford tells the story. Even with sunken home prices and low mortgage rates, potential home buyers across the country are sitting on their savings. Scared by an unrelenting wave of layoffs and business failings across the country, they're worried that the economy's tepid recovery is simply too unstable to commit to monthly mortgage payments.

'A BLOOD BATH.' To anxious consumers, the news just seems to get worse. On June 29, the same day that the Commerce Dept. reported that new-home sales nationwide fell by 5.6% in May—the fourth straight monthly drop—Aetna Life & Casualty Co. announced that it will slash 4,800 jobs. The next day, Aluminum Co. of America said it would cut 2,100 jobs by the end of the year.

The sudden falloff in home buying (charts) is bad news for an economy that

had been counting on an earlier upsurge in the housing market to keep the recovery on track. "There's a bloodbath going on in this industry," says Richard D. Cosner, owner of The Prudential California Realty in Mission Viejo, Calif. Says Dean Crist, an economist with the National Association of Home Builders: "If we are to see home sales pick up, people have to go back to work."

Nowhere is the housing downturn more obvious than in California, which throughout the 1980s accounted for 18% of the nation's home construction. Now, with the state buffeted by layoffs in the defense, banking, and energy industries, sales have slowed to a crawl. In Southern California's San Fernando and Antelope Valleys, new-home sales sank more than 50% in the quarter ended June 30.

The slump in California has helped drag down the entire West, where new-home sales slipped

by a staggering 34% in May. But there are pockets of strength in such places as Las Vegas, Boston, and New Jersey. In the Northeast, the Commerce Dept. reports, new-home sales are 20% higher than a year ago. Throughout the country, inexpensively priced homes are moving: Deliveries of prefabricated units jumped 16% this year.

But even in some of the stronger markets there's a dark cloud hovering. In the South, where new-home sales were up by 8.5% in May, skyrocketing lumber prices have cut deeply into the margins of many builders. A 38% hike in lumber prices increased costs of houses built by Colony Homes in Woodstock, Ga., by more than \$1,800 each—costs that the company couldn't pass along to nervous buyers.

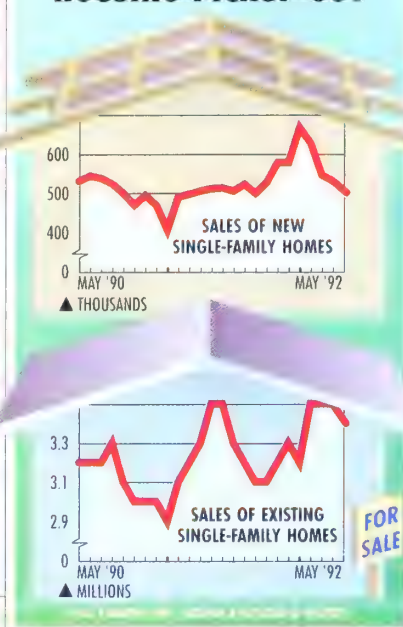
LAYOFF INSURANCE. All this has led to a fire sale in housing. On June 28, for instance, Palos Verdes Developers Inc. sold all 18 of its Park Plaza Estate townhouses in Torrance, Calif., just down the coast from Hughes. But it did so only by slashing prices by 30% and taking a \$2 million loss. Prudential California is resorting to slick marketing. On July 6, it begins offering a form of layoff insurance that provides up to 12 months of mortgage payments to customers who lose their jobs within a year.

But no gimmick in the world can completely overcome fear of the future. Rick and Julie Marini are agonizing about whether to build a new \$350,000 house in Milford, Conn. With their home stalled by defense and insurance industry layoffs, the Marinis worry that the contracting business may stumble. "Are we going to end up not able to afford the mortgage?" frets Julie Marini.

That's also the issue for Ken and Sanna Earnest, who no longer are in the market after spending most of the past year looking for a \$200,000 home. The Earnests stopped hunting a month ago, after McDonnell Douglas Corp. had cut 520 jobs at its Huntington Beach, Calif., plant where Ken Earnest works. For now, his \$45,000-a-year job is safe. But "it's scary," he says. "I could be next."

By Eric Schine in Los Angeles, with Kathleen Madigan in New York and bureau reports

WHERE DID THE HOUSING PICKUP GO?



THE GRASS IS LOOKING GREENER OR LANDOWNERS

Government may have to pay owners if regulations devalue a property

Brandt Child had a grand vision for the 450-acre tract he bought two years ago in southern Utah, just inside Kanab. The retired developer hoped to convert the lake property into a recreational oasis, complete with campgrounds, a golf course, and a water-slide park. But last year, the U.S. Fish & Wildlife Service dashed his dreams. The agency had discovered that the land is home to the rare Kanab amaranth snail, which is protected under the Endangered Species Act. The law would impose a fine of as much as \$25,000 for each snail killed by the humans and horses that Child wanted to lure to his grounds. It's cheaper for everybody to let the game warden," the 50-year-old Child jokes.

Unless he can sell the land to an environmental group, Child plans to file suit to challenge the regulations. But he has won a new legal weapon.

June 29, the U.S. Supreme Court broke legal ground by ruling that government, in some circumstances, must pay landowners when federal and state regulations wipe out a property's value. In the past, courts generally required such payment only when the government physically takes property to, say, build a highway.

DRY REACH. The so-called Lucas decision may be ammunition for a new generation of regulation-fighting lawsuits that aim to push beyond the Supreme Court ruling. This is "the new frontier of property law," says Scott Lock, an attorney at the Servative Institute for Justice in Washington.

At first blush, the high court's 6-3 decision is a disappointment for property-rights activists. They had hoped that the court would rewrite 70 years of property law and substantially broaden protections for property owners. They had argued that the Constitution requires compensation for any regulation—from rent control to wetlands protection—that impairs property values. But the Lucas ruling didn't go that far. And it follows an

earlier Supreme Court case rejecting challenges to rent control. "People were expecting a whole new body of law," says Mona Zeiberg, senior counsel at the U.S. Chamber of Commerce.

The June 29 decision, *Lucas vs. South Carolina Coastal Commission*, involved a suit filed by developer David H. Lucas, who had paid \$975,000 in 1986 for two beachfront lots in South Carolina.



THE LUCAS DECISION'S IMPACT ON:

PROPERTY OWNERS More protection against development rules

STATE LAWMAKERS Headaches in imposing stringent environmental and land-use regulations

ENVIRONMENTALISTS Most environmental rules will be left unchallenged. But new difficulties in setting sweeping protections of wetlands and endangered species

INDUSTRY Easier challenges to rules that wipe out a property's value, though most suits against regulations are unaffected

DATA BW

Two years later, the state barred development on coastal lands. Lucas claimed that the action made his property worthless, and that South Carolina should pay for the loss. He won a \$1.2 million damage award, but the state's high court reversed the judgment.

The Supreme Court ruled that the state courts should take another look at Lucas' arguments. The opinion by Justice Antonin Scalia held that the Consti-

tution generally requires regulators to pay property owners when laws unexpectedly make property worthless. The ruling cheered environmentalists. "It's not going to apply in the vast majority of cases," says National Wildlife Federation attorney Glen P. Sugameli.

WARNING SIGNAL. But property-rights activists plan to test how far the court is willing to carry its logic. They are attacking environmental, land-use, and historic-preservation regulations that merely chip away at a property's value. "That's 99% of the game; Lucas is 1%," says University of Chicago law professor Richard A. Epstein, the father of the property-rights movement.

One pending case involves Loveladies Harbor Inc., a Long Beach Island (N.J.) developer that bought 250 acres on the island in 1956. By 1972, when the government passed the Clean Water Act, Loveladies had developed most of the land. But its permit to fill 12.5 acres more in 1982 was rejected because the area had been designated a wetland. Loveladies won \$2.6 million from the U.S. in 1990. Now, a federal appeals court in Washington must decide whether the Lucas case applies when regulations bar an owner from developing only a portion of his property.

Regardless of how property owners fare in court, many cash-starved states will be more cautious in writing regulations. In May, Arizona passed a law requiring state agencies to assess whether they might have to compensate property owners before issuing new rules. Delaware has a similar law. States including Colorado, Kentucky, Missouri, New Mexico, and Nevada have failed in the past two years to pass such statutes. But the Lucas case "will reignite the efforts," says Larry Morandi of the National Conference of State Legislatures.

That may not be enough for property owners, who gripe that regulation has gone too far. Lucas is just one step in their campaign to reclaim what they consider their economic freedom. "I've always been able to do on my property what I want to do as long as I don't interfere with my neighbors," says Child. The Lucas case doesn't guarantee that he'll be able to do that in the future—but it does give him a fresh legal edge on his snails.

By Catherine Yang, with Peter Hong in Washington

AFTER THE BINGE, INVESTORS ARE ON A CRASH DIET

Only the strong IPOs are succeeding in a sudden buyer's market

On weekends, long lines of hungry customers are standard fare at the Hilltop Steak House in Saugus, Mass. But Hilltop has had less success drawing a crowd of investors. The restaurant's plans to open branches throughout New England suffered at least a temporary setback in mid-June when it withdrew the \$25 million initial public offering (IPO) it filed in April. "The price that we could get just kept getting lower and lower, so we decided to pull back," says Hilltop President Kevin J. Leary.

He has plenty of company. Despite underwriters' furious efforts to drum up buyers, companies large and small are finding it harder to sell stock. Of the 150 IPOs that came to market in the second quarter, 60 were offered at a price below the bottom of the range suggested in the offering documents. And more companies are postponing or withdrawing issues altogether (table). Companies also are yanking secondary offerings. On June 29, Callaway Golf Co., maker of the popular Big Bertha driver, bailed out of its attempt to sell holdings of its big institutional investors.

Don't expect Callaway and Hilltop to test the market again anytime soon. An early revival of interest in new issues is unlikely, so companies and their underwriters must find other ways of raising money. And the few brave issuers that are going ahead with their stock sales are in for a scary few weeks.

'BACKED UP.' What's slowing down the deal flow? A market suffering from indigestion. After an 18-month stock-buying binge that drove many indexes to all-time highs and helped hundreds of companies erase debt from their balance sheets, yield-hungry investors have finally pushed back from the table and said, "Enough!" Since early June, the pace of new money flowing into equity funds has slowed from the record set in the first five months of 1992, when some \$34.7 billion poured into stock funds, according to the Investment Company In-

stitute, the mutual fund trade group.

Meantime, brokerage firms are bracing for merely strong results after terrific first-quarter earnings of \$2.06 billion. Already, PaineWebber Group Inc. says its second-quarter profits will be about \$47 million, one-third less than its record first quarter. Anticipating a slowdown in underwriting and commission income, brokerage stocks have dropped

company, in the wake of the Mexican market's mid-June plunge.

The first cracks in the market appeared this past spring. In April, American Express Co. raised \$968 million spinning off part of its First Data Corp. but only after reducing its offering price to \$22 a share, below the \$24 to \$26 anticipated. On June 18, citing lack of institutional interest, GPA Group PLC, the Irish aircraft-leasing giant, withdrew \$900 million offer.

BAROMETERS. Today, it's a buyer's market. Underwriters are bringing out only their best deals, such as General Motors Corp.'s record \$2.15 billion offering. The key to GM's warm reception: conservative pricing. Brought out at 39, the shares recently have traded near 44. But investors shouldn't expect all new issues

to behave as well. Some 35 of the 45 biotech IPOs brought to market this year are trading below their offer price. "For individuals to be involved in this IPO market is like challenging Saddam Hussein with a pocketknife," says Richard B. Hoey, who manages the Dreyfus Growth & Income Fund.

Issuers, meanwhile, don't only kick themselves for missing their shot. That's the story at Gulfstream Aerospace Corp., which tried to go public again after a leveraged buyout. At Callaway, some big institutional shareholders, including General Electric Investment Corp. and Banc of America Capital Corp., had wanted a cash out. But they will have to bide their time and hope for a sunnier climate for selling equity.

Wall Street's eyes are finally fixed on two pending deals. Equitable Life Assurance Society plans to sell more than \$600 million of stock in mid-July as part of its conversion from a mutual to a public company. And Wellcome PLC is readying the largest global deal to date: a mammoth \$4 billion stock offering by early August to international investors. With drug stocks plunging almost daily, U.S. lead marketer Morgan Stanley & Co. has a tough selling job ahead. "Wellcome will probably get done, but it could weigh on the market if drug stocks are making big lows when they bring this to market," says Hoey. When outfits like Wellcome and Morgan are sweating, other issuers and underwriters must be breaking out in hives.

By Leah Nathans Spiro in New York with Geoffrey Smith in Boston

THE BIG CHILL DESCENDS ON HOT NEW ISSUES

COMPANY/ FILING DATE	UNDERWRITER	FILING AMOUNT MILLIONS OF DOLLARS	BUSINESS DESCRIPTION
WITHDRAWN			
GPA GROUP March, 1992	Goldman Sachs	\$900	Aircraft leasing
PAYLESS CASHWAYS February, 1992	Merrill Lynch	\$414	Retail building materials
GULFSTREAM AEROSPACE January, 1992	Morgan Stanley	\$100	Business jets
POSTPONED			
NINE WEST GROUP April, 1992	Merrill Lynch	\$142	Women's shoes
HILLTOP STEAK HOUSE April, 1992	A.G. Edwards	\$25	Restaurant chain

DATA: SECURITIES DATA CO.

some 30% since their early-year highs. And a number of underwriters are dealing with the drop in prestige that accompanies the withdrawal of a high-profile deal. Says one executive at a major investment bank: "Everything is backed up, and clients are not happy." That's the case at Goldman, Sachs & Co., which had to pull a \$1.4 billion global offering for Banacci, a big Mexican financial

Anticipating a slowdown in income, brokerage stocks have dropped some 30% from early-year highs



The new HP PaintJet XL300 lets you make a splash without getting soaked.

At last. A printer with fantastic color and a brilliantly low price. Only \$3,495.

Vivid color has never been so affordable. Hewlett-Packard introduces the PaintJet XL300 inkjet printer. Now you can get laser-quality color printing for about half of what you'd expect to pay. Only \$3,495*.

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As versatile as it is practical, the PaintJet XL300 switches effort-

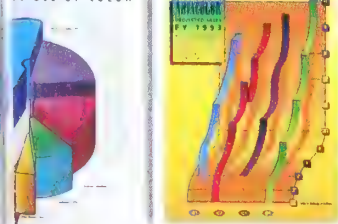
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THE BIG BLUE BULLS ARE RUNNING

Suddenly, the Street is taking IBM's makeover seriously

It almost could work as a hit sci-fi thriller: A once-invincible computer giant stumbles and loses ground to nerdy, bespectacled upstarts. The hulking ex-hero struggles for a comeback. Nothing seems to click. A big operating loss dashes Wall Street's hopes. The stock sinks to a nine-year low.

But wait! Suddenly, the giant swallows a bitter pill: Over seven months, it reorganizes, slashes its payroll, spends big bucks on a new image. In just eight weeks, the stock rebounds by 20%. Playing right now on a screen near you: *Big Blue Returns*.

Yes, indeed, IBM is back—at least, as far as Wall Street is concerned. The computer colossus saw its stock plummet from a high of 137 last year to under 82 in April. Since then, though, the shares have climbed back steadily, to near 98 (chart). In fact, the stock has proved to be one of the strongest high-tech issues around: During its recent climb, the Standard & Poor's computer portfolio, excluding IBM, sank 18%.

ROCK BOTTOM. What has changed? Not IBM's growth prospects, analysts say, just investors' perceptions. "The business is headed in the right direction," says Steven Milunovich, computer analyst at Morgan Stanley & Co. Inc. "People are taking [IBM's] management seriously about trying to reach 18% return on equity"—vs. 1990's 14.8%.

Big Blue's biggest bulls project that its shares could hit 120. That assumes, however, a vibrant worldwide economic rebound. More likely, the stock will settle in the 110-plus range, where the price-earnings multiple would be a reasonable 14 or 15, Soundview Financial Group Inc. analyst Stephen P. Cohen suggests.

Cohen, who has been bearish on the stock for several years, now is warming up, even though he reckons IBM's total revenues this year will grow just 4.2%,

to \$67 billion. Profits could look decidedly better: Cohen and others recently upped their 1992 earnings estimates from below \$7 to as much as \$7.50.

In truth, investor psychology on IBM couldn't have gotten much worse than it was early this year. In 1991, IBM posted its first loss in decades—99¢ a share. Then, IBM Chairman John F. Akers announced a massive refocusing of the

More visibly, the company has been shipping OS/2, the software it hopes to win back at least some control of the personal computer business from Microsoft Corp.'s Windows package. IBM is making an all-out effort to push the software and says it has shipped 700,000 copies. That's about 300,000 more than had been expected, but far below the 1 million copies of Windows that have been sold.

Perhaps the most compelling sign of better earnings ahead: IBM has been undated with employees signing up for its early-retirement package. Many believe this is the last such deal they'll see. After the offer ends on July 31, managers will likely be given authority to lay off employees as they please, says Soundview's Cohen, a former IBMer.

Indeed, IBM's German subsidiary is already moving to cut ties to powerful labor unions, which have kept labor costs high (page 45). Together, IBM may well exceed Akers' goal to eliminate 20,000 jobs from its payroll of 344,000. More cuts—as many as 15,000 in 1993—are coming.

IBM does face some tough challenges. Analysts figure that, at best, its PC operation is barely profitable, even before reacting to price cuts in June by Compaq Computer Corp. and Dell Computer Corp. Big Blue's core mainframe business is being hurt by weak capital-spending in the PC cycle, says Stephen C. Decker, a computer analyst at Soundview Research Group.

MAINFRAME MALAISE. Customers, meanwhile, are consolidating their data centers, cutting costs, reducing the number of mainframes and related software licenses IBM must sell. Indeed, market researcher Computer Intelligence Corp. last year found a 10% drop in the number of data centers and an 11% decline in installed processors.

What's likely to keep IBM's earnings relatively strong and investors interested is Big Blue's all-out effort to cut costs. The company even mandated that all employees in Westchester County, N.Y., including those at IBM's main headquarters, take a vacation during the July 4th week. Not exactly Hollywood material, but maybe a step in the right direction.

By John W. Verity in New York



have to clear some daunting hurdles. BA will need U.S. government approval to acquire the substantial stake in USAir. USAir must figure out how to buy TWA's assets without acquiring its huge pension liabilities. And both TWA and USAir may have trouble completing the deal. "They're crazy if they think they're going to go into bankruptcy court and buy TWA assets without any competing bids," says a U.S. competitor.

'I'D SELL.' But if it all works out, USAir finally could find itself flying more international skies. In the past, Colodny shunned opportunities to pick up overseas routes from the Transportation Dept. "USAir was a prime candidate to win a Tokyo route and possibly one to London, but it would not compete for them," says a senior Transportation official.

New routes would help boost USAir's finances, which have been awash in red ink (chart, page 35). The arrangement could also bolster the airline's position at home. Together, USAir and TWA carried 73.3 million domestic passengers last year, more than any other U.S. carrier. And their combined capacity would rank them No. 4 in the U.S. industry.

Chances are, TWA is ready to sign on the dotted line. Icahn's airline is gravely wounded. By selling it, Icahn could claim to have kept it alive. "If I were in his shoes," says one rival, "I'd sell the cattle when it still has some meat."

Then there's BA. The British carrier has been itching to gain a foothold in the big U.S. market. During the past several years, it has kicked the tires of United, Northwest, and Continental but walked away. This time, BA may be serious enough to push the government into opening British skies. Since the Transportation Dept. would have to approve BA's 49% stake in USAir, Washington plans to use the threat of rejection to force London to ease its strict control over fares and landing rights for U.S. carriers. Britain's powers stem from the 1976 Bermuda II treaty, which the U.S. already is trying to renegotiate.

London has been unwilling to budge. But when talks resume on July 20 in London, the U.S. may find itself with more clout. "You better believe there is a linkage between our talks and their ability to buy into a U.S. airline," declares Patrick V. Murphy, Deputy Assistant Transportation Secretary.

If this strategy works, it could be a major coup for Schofield. His first action as chairman shows that he's ready to make some big moves—just what's needed to pull USAir out of its financial nosedive.

By Seth Payne in Washington, with bureau reports

SPORTS BUSINESS

LET THE CAPITALIST GAMES BEGIN

The ex-Soviet Olympic squad wheels and deals its way to Barcelona

Brother, can you spare plane fare to Barcelona? Once among the most powerful symbols of the Soviet state, the Olympic team of pole vaulter Sergei Bubka and gymnast Svetlana Boginskaya has fallen on hard times. With only days until the Summer Games begin in Spain, cash is short.

The renamed Commonwealth of Independent States' Unified Team managed last February to scrape up rubles enough to send a full squad to the Winter Olympics in Albertville, France. But in the months since, the economy has gone from also-ran to no-show in the former Soviet Union. "The government has its own headaches, and we don't want to go begging to them," says Vitaly Smirnov, president of the Russian Olympic Committee, who is leading the Unified Team's efforts to raise \$3.5 million for the Barcelona trip.

So they're trying a little capitalism. Like any big-time Olympic squad, the Unified Team is hotly pursuing corporate sponsorships and licensing agreements.

Smirnov first hit pay dirt with German sneaker-maker Adidas. The United Team's package includes cash, sweatsuits, and equipment. Adidas promotions manager Antje Koenig says it is money well spent, because the Unified Team's expected high medal count should make Adidas products highly visible.

The Adidas link, though, means other sporting-goods companies are staying away for now. Nike Inc. has a shoe-endorsement deal with Bubka, but it won't consider working with the entire Unified Team until the Olympics are over and the Adidas contract expires.

PRECIOUS PINS. Smirnov also is finding dealmaking difficult in the U.S. He says he got a thumbs-down from longtime International Olympic Committee supporter Coca-Cola Co. Atlanta-based Coke says only that it already supports the Unified team as part of its overall sponsorship agreement with the IOC.

But Turner Broadcasting System Inc. came up with \$500,000, ostensibly for rights to the 1994 Goodwill Games between U.S. and former Soviet athletes. Says Goodwill Games head Jack Kell "It's in our interest for the Unified Team to remain competitive and field the best possible team in Barcelona."

Smirnov's journeys also have introduced him to American litigiousness. Because the Unified Team will probably disband after Barcelona, its apparel may become collectors' items. So in June, A



BUBKA: THE VAULTER'S PACT WITH NIKE IS A SOLO ACT, SO F

lanta-based Collegiate Licensing Inc. began negotiating for the American rights to sell Unified Team gear, including pins and trading cards. The deal could total from \$200,000 to \$300,000.

But now, two other American companies claim the exclusive rights to market Unified Team trading cards in the U.S. Smirnov insists no such rights have been sold, but Collegiate Licensing Chairman William Battle is worried: "This could blow the whole deal."

Smirnov says he is about halfway securing the money the Unified Team needs. But he's already thinking beyond Barcelona. "We're trying to survive this year and then work on the future," he says. "We want to show American companies that we can be good for business." Well said, Comrade Smirnov.

By Keith Dunnivant in Atlanta, with Ann Hollifield in Bonn



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THE REAL BUSINESS INCUBATORS

Who says public education is outmoded? According to Standard & Poor's 1992 survey of some 70,000 corporate officers, of the 12 schools that have awarded the most undergraduate degrees to students who have gone on to lead businesses, seven are public. Here are the rankings:

SCHOOL	NUMBER OF GRADUATES
CUNY	1,386
U. OF WISCONSIN	1,125
YALE	1,104
HARVARD	931
U. OF CALIFORNIA	863
U. OF ILLINOIS	840
U. OF PENNSYLVANIA	836
U. OF MICHIGAN	812
NEW YORK U.	799
PRINCETON	789
CORNELL	686
U. OF NORTH CAROLINA	679

DATA: STANDARD & POOR'S CORP.

MEXICO CITY LOSES ANOTHER CARMAKER

► Chrysler is driving out of Mexico City. The car company said on June 30 that it is closing its 54-year-old small-truck plant in the city. It didn't say where or when it will move. Four months ago, GM announced plans to shut down its Mexico City plant and open a new one in Guanajuato, 150 miles north.

GM says it is moving because of Mexico City's tough new antipollution regulations. For its part, Chrysler says the move will allow it to expand production in Mexico. And in leaving Mexico City, the car-makers also are leaving behind a militant work force.

STEELMAKERS SAY IT'S JUST NOT FAIR

► After threatening to do so for months, the largest U.S. steel producers on June 30 filed 84 cases alleging trade-law violations by 21 countries.

Armco, Bethlehem Steel, Inland Steel, LTV, and USX filed the complaints with the Commerce Dept. and the U.S. International Trade Commission after the March, 1992, expiration of steel-import quotas. The big integrated steel companies alleged that unfair trade by foreign makers of flat-rolled steel contributed to American industrywide losses of \$2.2 billion in 1991.

The steel companies are careful about the fights they pick, though. The four producers that have joint ventures with Japanese steel-makers didn't join the suits targeting the Japanese.

EQUIFAX VOWS TO GET IT RIGHT

► Equifax successfully avoided being sued when it agreed on June 30 to revamp its credit-reporting methods. After talks with attorneys general of 18 states, Equifax announced it would go beyond federal law to ensure the accuracy of its credit reports and correct errors promptly.

Equifax said it would continue with many of the steps it had already taken, including installing new software, providing a toll-free number for consumer questions, looking into disputes within 30 days, and providing free copies of reports to consumers denied requests for credit. The state attorneys extracted

'CAN I CHARGE FOR HAVING ETHICS?'

Juvenile delinquents have reform school. Wayward drivers have driving school. Vice-Presidents can take remedial spelling courses. But can "ethics school" really force pricey lawyers to return your phone calls?

The Florida Bar Assn. thinks so. Lawyers accused of minor misconduct will soon have a no-brainer of a choice: a reprimand by the bar—or two or three days in a classroom with a self-proclaimed ethics expert. Classes cover such topics as professionalism, courtroom etiquette, and dealings with clients.

Ethics school will be available only for "first-time offenders," says Thomas Ervin, who headed the committee that came up with the concept. And it's not for the really shady type who skim their clients' trust funds. Even so, the school should be well-attended when it opens next year: Complaints on lawyer misconduct in Florida now total about 8,000 annually.



a similar agreement last year from TRW, another leading credit-report company.

A SPATE OF BAD NEWS AT SEQUOIA

► Bad debts are plaguing Sequoia Systems, a Marlborough (Mass.) maker of fault-tolerant computers. On June 30, Sequoia said it will take a "substantial loss" in the latest quarter, in part because it had to write off an unspecified portion of its receivables.

The news follows by three weeks an announcement by Sequoia that the Securities & Exchange Commission is

reviewing its accounting practices in connection with a \$2.5 million sale to a government contractor. Sequoia says that it is cooperating with the SEC. Also, a shareholder suit alleges that the company inflated its revenues and profits. Sequoia had no comment on the suit. The company stock, which rose to 17½ in January from a December low of 10½, plummeted on the news.

TEAMSTERS: THINGS BETTER WITH COKE

► The Teamsters called off a national campaign against Coca-Cola after the No. 1 drink maker agreed to hold a series of talks with the union beginning July 10. The sides will discuss Teamsters complaints that Coca-Cola is cutting health retirement benefits, closing plants, and increasing workloads. Union members held a small rally outside Coca-Cola's Atlanta headquarters July 1, just as the company agreed to the talks. Because of the company's actions, Teamsters officials now say they will hold off on planned stage anti-Coke protests and major sporting events this weekend.

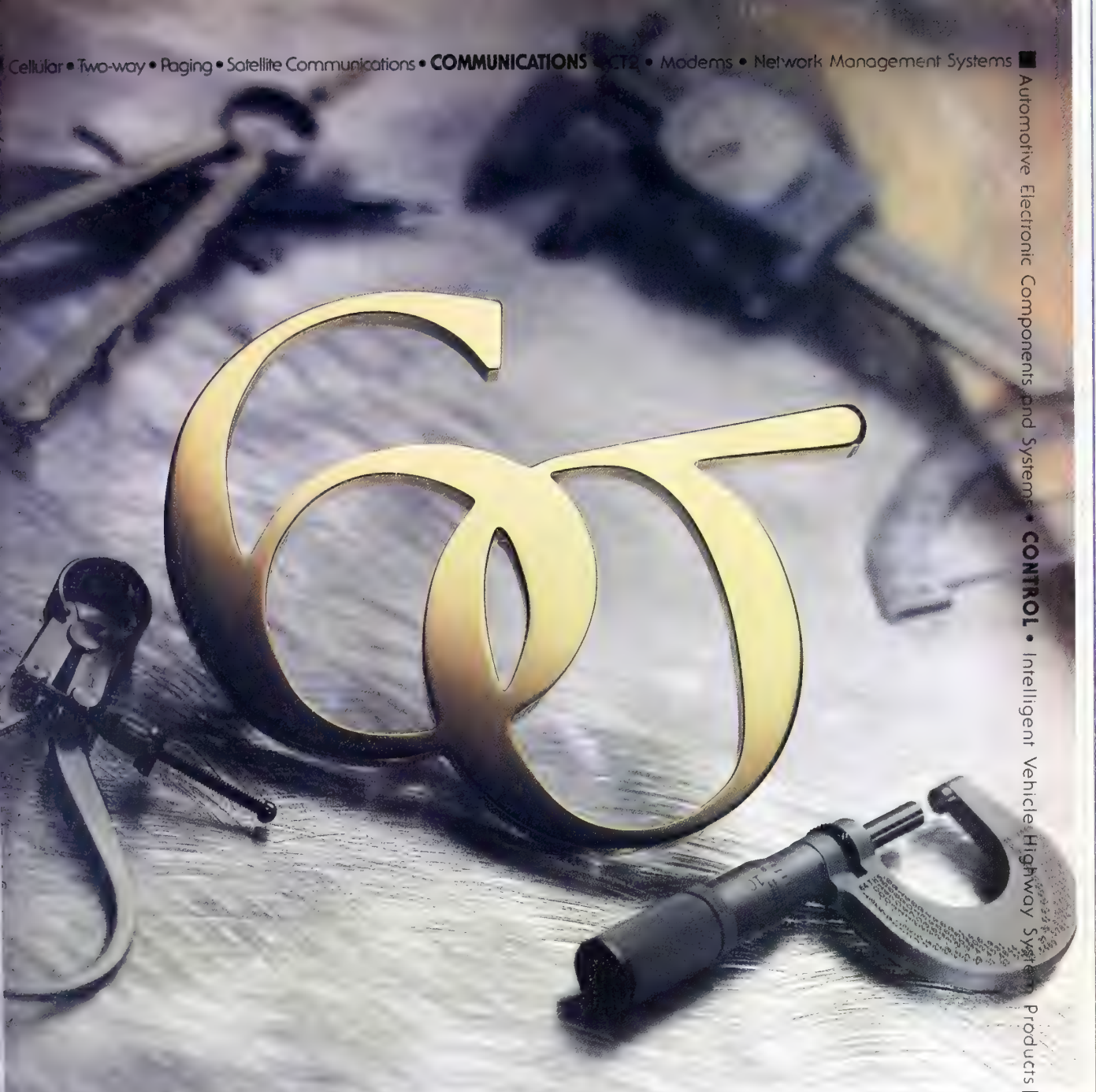


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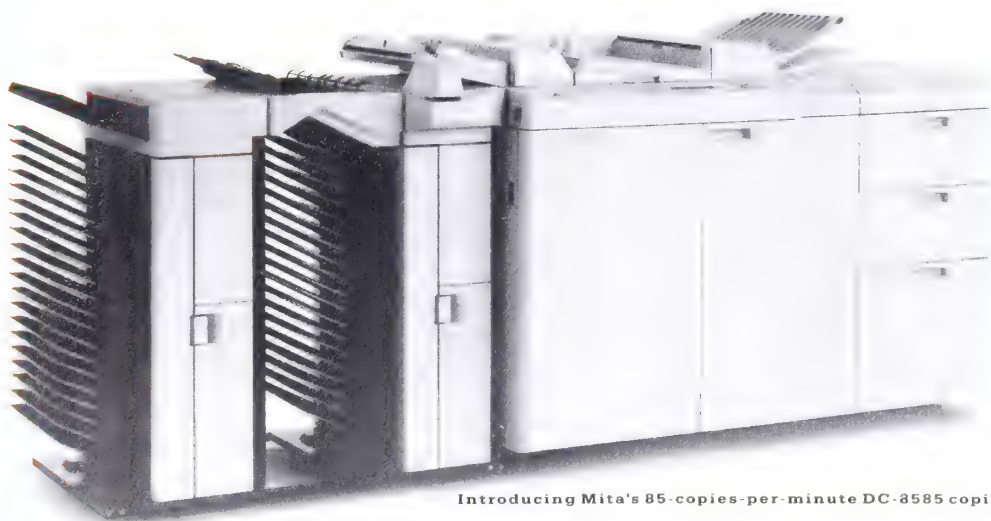
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AMATEUR HOUR S OVER FOR PEROT

For nearly four months, he was the phenom of the new season, an appealing newcomer who wowed the fickle fans. But Ross Perot, springtime slugger, is battling a summer slump. After a dizzying rise to the top of the Presidential d, Perot's image as a can-do outsider has been damaged by the brushback pitches thrown at him by Bush campaign operatives—and tarnished by a few clubhouse mishaps.

The assaults by the Bushies, especially reports that the Dallas billionaire routinely spied on employees, political figures, and others, have put Perot on the defensive for the first time. Now, the still-undeclared candidate faces a critical time as he tries to regain control of the agenda. But before he can move effectively against political enemies, he must deal with dissension among his volunteers.

TOUR. After a lightning ascent, Perot's sprawling Dallas political operation is suffering growing pains. The campaign's attempt to combine its huge volunteer organization with a new staff of political pros has set off grumbling among the amateurs. A few spats have gotten nasty. An ex-volunteer in Oklahoma says he was labeled a security risk. Perot's former Illinois chairwoman, fired on his birthday, claims he was falsely described as a convicted felon. The head of Perot's District of Columbia chapter says she was axed because she is white.

Despite the fervor of Perot's million-plus volunteers, analysts say it was inevitable that he would need some experienced operatives to harness their raw energy. Still, it has taken longer than expected for the bipartisan brain trust to sort things out. "When you bring in lots of new people, everyone has to stir the pot with their own spoon," says Democratic consultant Andy Sherman. "That takes time." Perot's campaign chairman, Thomas W. Luce III, promises that volunteers will run registra-

tion drives and other grass-roots politicking—with some guidance from the pros. "The structure doesn't change," Luce insists. "The volunteers are going to be the essence of the campaign."

But professionalization has become an issue among some backers, who see the Texan's insurgency as his political *raison d'être*. "If he runs a traditional campaign, he totally loses his point," says Clifford Arnebeck, a 1990 Ohio GOP congressional candidate who supports Perot. "If he spends \$50 million to hire the

top-gun PR firms to run a manipulative ad campaign, how is he different than the others?" Perot insiders are sensitive to those concerns. One adviser says the pros are there simply "to give guidance" to volunteers. Notes one: "This is supposed to be a no-hack campaign, remember?"

STOCK FLAK. The Perot campaign's struggles have already delayed a formal declaration of candidacy from the target of late June. Campaign co-chairman Edward J. Rollins has promised an announcement by the end of July, but Luce says the date depends on progress in remaining ballot-petition drives. "We don't have a schedule yet," he admits.

On the stump, Perot's penchant for off-hand remarks continues to cause trouble. Most recently, he has caught flak for suggesting that Citicorp, whose stock he has sold short, might be insolvent. Some advisers, hoping to get back on the offensive, are pushing for a big TV ad blitz. "Things have been going so well, maybe he doesn't realize that the people giveth and the people taketh away," says one adviser. From now until late August, the Democratic and Republican conventions will shift some of the spotlight from Perot. The way things are going in Dallas right now, that may be a break for a candidate who's still trying to prove he can play in the big time.

By Richard S. Dunham



A VOLUNTEER: GETTING CUT OUT?

HOSPITAL WRAPUP

HEALTH

Chances are growing that a health care reform bill, once the Democrats' top legislative priority, may not make it to the House floor this year. The Democratic leadership has already retreated quite a long way on the issue, dropping a "play or pay" requirement that businesses either provide medical insurance for employees or pay a special tax to cover the uninsured. Despite his exertions, House Majority Leader Richard A. Gephardt (D-Mo.) has been unable to craft a compromise that's assured of the 218 votes needed for passage. Liberals want more radical reform. And Democratic

conservatives, who prefer to use the tax code to push employers to use managed-care health plans, object to the bill's stringent price controls.

Unless a solid consensus emerges, Gephardt is unwilling to send a measure to the floor. Failure of the leadership bill would be embarrassing enough, but there's a bigger danger lurking: President Bush and House Republicans are pushing an alternative that would reform the malpractice system and make it easier for small companies to buy medical insurance. This version might just pass. And, warns Representative Ron Wyden (D-Ore.), "if that happens, then Bush has taken away our best issue."

REGULATION

The Food & Drug Administration is learning that giving people what they want doesn't always make them happy. Under pressure from the White House, the FDA last year gave in to industry demands that it supplement its staff by using outside reviewers to assess some drug applications. The change was designed to speed product approvals. But now pharmaceutical companies seem to have developed cold feet about using the new procedures. "No company wants to be first, because they think their review will be held up," says a top FDA official. "It's really annoying."

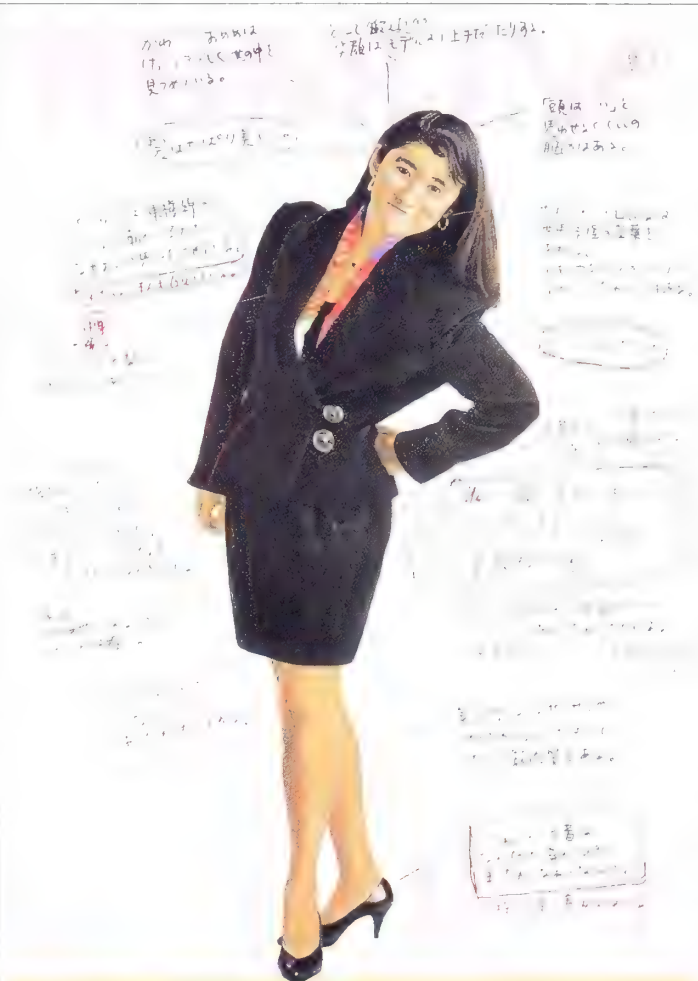
REVENGE OF THE 'OFFICE LADIES'

Sexual harassment is still the norm, but Japanese working women are fighting back

For one executive at a prestigious Tokyo service company, it started about a year ago. She found notes on her desk alluding to her sex life. Her male colleagues pinned up a nude centerfold resembling the woman. Another time, they wrote the woman's name at the top of a diagram of a human brain, indicating which lobes drove her sexual obsessions. When she protested, management advised patience. This spring, she was transferred to a less challenging post, while the men were not disciplined. "I spent half my energy just trying to cope with the humiliation," recalls the woman. "My bosses just acted as though it was my problem."

For many years, the only recourse for Japanese women in such situations has been *naki-neiri*, or quietly crying themselves to sleep. Now, that is changing. An unprecedented number of female workers are taking on Japan's male-dominated corporate society. They are accusing companies of condoning sexual harassment—or *seku-hara*—in the workplace and of sexist discrimination regarding promotions and pay.

SURPRISE RULING. As the cases proliferate, some are starting to get results. Last April, a former employee at a small publishing company in Fukuoka, 700 miles southwest of Tokyo, became the first person ever to win a sexual harassment case in Japan. In that case, a female employee claimed that her boss spread rumors about her alleged promiscuity. When she complained, she was forced to quit. The surprising ruling has breathed new fear into



DENTSU'S 'WORKING GIRL' A brochure that the ad giant used to recruit college seniors comes with what are supposed to be playful comments. But half of them stress physical traits, such as "[her breasts] are pretty large" and "her rear is also rather soft"

some companies, while the Japanese news media have stirred a national debate on sexual behavior in the workplace. Two days after the case ended, the Tokyo government issued 10,000 copies of a booklet on sexual harassment, and all were quickly snapped up. Says Yukiko Tsunoda, a lawyer who was involved in the decision: "This case showed that sexual harassment is the

company's responsibility. If they don't take measures to prevent it, they will be sued."

Indeed, they are. Currently, Hitachi Ltd. faces a \$437,000 wage-discrimination suit in which nine women charge that men with similar employment histories were routinely paid from 10% to 74% more. Hitachi denies the charges. At Sumitomo Life Insurance Co., two dozen women have accused the company of delaying the promotions of married women. Says a Sumitomo official: "I don't believe there was any discrimination."

Japanese companies in the U.S. are also becoming targets of harassment cases. Trading company Sumitomo Corp., for example, faced a complaint before the Equal Employment Opportunity Commission that its Chicago office abused Kimberly Conway, a U.S. citizen who worked as a sales assistant. She charges that Japanese managers allowed pornographic materials to be circulated and that one manager repeatedly asked her for photos of herself in a bathing suit. Meanwhile, she claims, she was given no token promotions. A lawyer for Sumitomo declined comment. And trading firm Ito

toh & Co. is trying to reach an out-of-court settlement with the female employees at its New York office who have initiated a class action, claiming sex discrimination. A C. Itoh lawyer declined comment.

In Japan, it's nothing new for women to find themselves stuck at the bottom of the corporate ladder. The first barrier to success is Japan's two-track hiring

em, which leaves fewer than 3% of professional positions at blue chip companies open to women. As a result, ambitious women who fail to secure one of these full-time jobs often end up as "ice ladies" who file, wear uniforms, and politely bow while serving tea to guests and male colleagues.

Women lucky enough to land a professional job may run into a second barrier—a hostile corporate climate. A Labor Ministry poll indicates that 43% of all women in management positions complain of sexual harassment. Another problem is customers' tendency to feel slighted if a company does not send a woman as its representative. Although women's rights to equal employment have been protected by Japanese law since 1986, "companies still expect women to get married and retire," says Mami Kaneko, labor consulting chief for Tokyo Metropolitan Government.

But now, women in Japan are starting to speak out. On June 27, the weekly magazine *Gendai* ran an essay—ironically preceded by a six-page glossy picture of a nude woman—by the woman who won the \$13,200 judgment in April. Female employees at an apparel company in Tokyo recently protested when the firm insisted they all wear a miniskirt the company was trying to promote.

DOUBLE STANDARD. Even sophisticated companies in Japan can be blind to sexual harassment. Take ad giant Dentsu. Its 1992 recruiting brochure, aimed at college seniors, features a drawing of a typical Dentsu "Working Girl," covered with what are intended as playful, handwritten comments. But they focus on her physical charms and seductive powers instead of her intellectual and creative talents. One message notes that her breasts are "pretty large." Another draws attention to her "rather soft" bottom. A drawing of the Dentsu Working Girl also pokes fun, but makes almost no comment on his physical qualities. A Dentsu official says that "we were not going to say especially that she was not sexy. It was partly meant as a compliment." He says that the brochure has been withdrawn. Still, several prospective employees have received copies in the past two months.

Even though Japanese women are beginning to hit back, few if any companies are setting up procedures for foreign dealing with discrimination and harassment. "They'll make things look better," says lawyer Tsunoda, "without dealing with real problems." If that's all that happens, it will only create more complaints, court battles, and pressure on corporate Japan to guarantee women equal deal.

Ted Holden in Tokyo, with Jennifer Miller in New York

EUROPE

A HELPING HAND FOR EUROPE'S HIGH-TECH HEAVIES

Losses are forcing the Eurogiants to seek U.S. partners



DIGITAL EQUIPMENT WILL BUY A 10% STAKE OF ITALY'S OLIVETTI

Olivetti Chairman Carlo De Benedetti knows how to pick his moments. Since the 1989 breakup of a computer partnership with American Telephone & Telegraph Co., he has flirted with everyone from Dutch giant Philips and Britain's ICL to IBM in search of a replacement. Now, with U.S. companies waging a fierce fight for European market share and hungry for allies, De Benedetti is making his move. On June 26, he exacted a princely price—about \$300 million—from Digital Equipment Corp. for a 10% stake in money-losing Olivetti. In return, DEC gets to pump its new

workstation technology through Olivetti's vast European sales network in competition with IBM, Hewlett-Packard, and Sun Microsystems.

As European high tech undergoes a dramatic shakeout, a wave of technology alliances and investments is washing over the Continent. Sapped by big losses, such leaders as Groupe Bull, Philips, and Thomson are fast shedding nation-

alistic pride and seeking the technology and capital they need to survive. They're getting some help from each other, but increasingly such aid is coming from opportunistic foreign rivals. As the politically correct partners of choice, Americans and their technology are gaining influence. For now, the more cautious Japanese seem to be losing ground.

Northern Telecom Ltd. is among those looking to cash in on the shakeout. On July 2, the Toronto maker of phone equipment was expected to agree to pay more than \$100 million for at least a 20% stake in the ailing communications unit of French conglomerate Matra. For starters, the two plan a joint venture in cellular-phone networks. Matra gets the capital it desperately needs to enter new, high-growth markets, and Northern gets a foothold on the Continent. Other projects in switches could help Northern realize its ambition to rival European giants Alcatel and Siemens by the end of the decade.

HOUSE SNUB. Such linkups, driven by the rising costs of research and development, have been growing for years. But in Europe, any cooperation beyond sharing basic research has been rare. Now, executives are realizing that unless they become more competitive fast, the single European market will give U.S. and Japanese rivals such an edge that Europeans may never recover.

As one way to stay in the game, Philips and German rival Grundig recently merged their VCR and camcorder businesses to combat market-share gains and price-cutting by Sony Corp. and Panasonic Co. And in a rare snub to its in-

BIG DEALS ON THE CONTINENT

BULL Sells 5.7% stake to IBM for \$100 million and adopts its microprocessor technology

MATRA Sells 20% holding in communications unit to Northern Telecom for more than \$100 million and forms cellular-phone venture

OLIVETTI Sells 10% interest for about \$300 million to Digital Equipment and uses its advanced processors; forms office-printer joint venture with Canon

PHILIPS Merges VCRs, camcorders in joint venture with Grundig; co-designs consumer-electronics chips with Motorola

DATA INC.

BRITAIN

house chip unit, Philips is setting up a joint design center with Motorola Inc. to make video circuits critical to a new multimedia compact-disk player. The U.S. chipmaker hopes to widen the pact to other products and gain the expertise it needs to reenter the consumer-electronics market, which it abandoned in the 1970s. As for Philips, it is a sign that "we can't afford the luxury to go it alone anymore and survive," says a strategic planning executive.

One reason is that the European Community can no longer be counted on to protect the home teams at any price. Last winter, the EC refused to endorse fully a high-definition TV standard developed to help Philips, Thomson, and Nokia. Protectionist howls from such outspoken leaders as Thomson Chairman Alain Gomez, who exhorts the EC to raise tariffs against low-cost Japanese electronics imports, have fallen on deaf ears. While EC Commission President Jacques Delors wants to boost annual R&D spending 62% by 1997, totaling \$23 billion over five years, even that now appears dead in the wake of post-Maastricht budget wrangling.

ALPHA BET. Technology, in fact, may not be in as short supply in Europe as strategic and marketing skills. With only 7% of Olivetti's \$7.4 billion of sales in North America, says De Benedetti, "mostly, what we need is help to become a global—not merely a European—player."

That's where Digital could come in. Beyond using its superfast microprocessor, Alpha, in the workstation wars against IBM and others, Olivetti also sells PCs and notebook models to Digital for resale in Europe. The Italians hope the new alliance will prompt Digital to buy more—up to 100,000 units this year from 60,000 in 1991. The deal to date doesn't go beyond Alpha, but the two have even discussed how they might comarket products and services in both Europe and the U.S., such as in banking and retailing. "There's potential for us to work much more closely on a global basis," says Peter J. Smith, Digital's vice-president for European marketing.

The tightening transatlantic bonds may not sit well with the Japanese. The Digital-Olivetti deal and a similar axis formed in February by IBM and France's Groupe Bull appear to curb the chances of Hitachi Ltd. and NEC Corp., the Europeans' respective suppliers of mainframes, from expanding ties into other computer sectors. Of the Japanese majors, only Fujitsu Ltd. now has a firm hold through its 1990 purchase of Britain's ICL. The surprise isn't that the Japanese didn't act faster but that the Europeans and Americans waited so long.

By Jonathan B. Levine in Paris

BOB HORTON MAY HAVE 'AMERICANIZED' BP TOO WELL

Behind his resignation was a blunt, U.S.-style corporate coup

Robert B. Horton was fond of telling his senior executives that the key challenge of the 1990s was "managing surprise." By that test, the 52-year-old chairman and chief executive of British Petroleum Co. came up short. He was whipsawed by volatile oil prices and slow worldwide economic growth, leaving Britain's largest industrial company reeling. But Horton's fatal blind spot, it now appears, was his failure to

sent and initiative. Horton declined comment.

Horton's dismissal came at the har of a 17-member board made up of who's who of international industry, includes banker Lord Ashburton (formerly known as Sir John Baring); C. Hahn, chairman of Volkswagen; and Charles F. Knight, chairman of Emerson Electric Co. The board quickly separated the functions of chairman and CEO: a

former goes to Ashburton in a nonexecutive role, the latter, David A.G. Simon, who has been chief operating officer.

HIGH-HANDED WAYS? Sources say the nine outside directors were galvanized by numerous secret discussions since at least early February with Horton and fellow executives. The directors were presented with mounting evidence of morale problems brought on by financial pressures and layoffs. The executives were increasingly agitated, by, as one claims, the "unpleasant and undiplomatic" manner in which Horton would deal with them, including nagging phone calls at all hours. BP's directors declined to comment.

In Cleveland, home of America Inc., formerly known as Standard Oil Co. (Ohio), a big round of cutbacks was announced the day before Horton quit. Recent executive departures included not just its British chairman, James H. Rolfe, who left for the top job at Britain's Cable & Wireless PLC, but

its refining and marketing boss, John McDonald. In the London office, executives openly circulated memos spoofing Horton's management style, including one that referred to his desk chair as a Napoleonic throne."

The most substantive row, say several insiders, was over Horton's insistence on maintaining the company's annual dividend payout of \$1.7 billion despite a cash-flow crunch. In meetings with senior officials, Horton would routinely brush aside arguments that the dividend should be shaved in order to strengthen the balance sheet. The battering the stock has taken—down 13% since



One executive claims Horton was 'unpleasant and undiplomatic,' and BP's board faced mounting evidence of morale problems

realize that his closest colleagues had turned against him.

Horton's stunning resignation on June 25 was the result of a rare British corporate coup. Interviews with BP insiders reveal that Horton was ousted by a solid front of BP executives and outside directors. Like former Soviet President Mikhail Gorbachev, Horton waxed eloquent about *perestroika* and the "revolution" he was leading to shake up the hide-bound bureaucracy at the world's third-largest oil company. Yet he failed to deliver financially. And insiders say he had an imperious manner that undermined his stated aim of encouraging dis-

ignation—suggests that investors fear the dividend will be cut.

Horton's fall is a far cry from the late 1980s, when he returned to London from Cleveland. His turnaround of Sohio, coupled with earlier successes in BP's tanker and chemical units, catapulted him to the top job. Two years ago, he embarked on a radical plan, called Project '90, to wake up BP. Horton was hell-bent on "Ameri-izing" a head office mired in committees and paper-pushing. "We needed someone to shake us out of the doldrums," says a former executive. Horton's dream: to create no less than "the ideal corporation for the 21st century."

NEW BALLGAME. Yet what worked in Cleveland hasn't in London. Part of it is cultural resistance. "It was a whole new game for BP," says Frank E. Mosier, retired vice-chairman of BP America. But critics say a big part of the problem was poor execution. "There was a lot of talk about empowerment," says one insider, "but it turned into a conflict between what was said and what was done."

Of course, BP's financial problems complicated Horton's task. BP is saddled with the legacy of a \$16 billion spending spree in 1987-89. The money flowed to its control of Sohio, purchase of North American producer Britoil PLC, and buy back a chunk of BP stock from the Kuwait Investment Office. For a company that tilted heavily toward exploration and production earnings, low oil prices have been a disaster. First-quarter 1992 earnings plunged 82%, and BP's debt-to-equity ratio is an onerous 85%.

Within days of Horton's departure, BP announced new efforts to conserve cash. Financially, many of them come from a strategic review launched earlier by Horton himself. BP is retrenching in the U.S. and may put its filling stations and refineries outside the Midwest and the east on the block. Overall, capital spending is being slashed from last year's \$8 billion to no more than \$5 billion a year in 1993 and 1994. If oil prices fall, any extra cash will be used to pay down debt.

As with any oil company, the key is to produce more oil than you are producing—something BP hasn't excelled at. In its core Alaskan and North Sea fields declining, new CEO Simon will face huge pressures to marshal his scarce resources in productive areas. The big bet now is Colombia and the waters of the Gulf of Mexico. In the meantime, Simon will need to buck up his troops. On June 29, he sent a message to all headquarters employees, stressing the importance of "teamwork." Horton had used the same word many times before. Now, Simon has to show he means it.

By Richard A. Melcher in London, with Gary Schiller in Cleveland

GERMANY

IBM DROPS A BOMB ON LABOR

Germany's cozy, costly union-management consensus is splintering



IG METALL WILL LOSE 17,500 IBM WORKERS

Nestled in Stuttgart's hilly suburbs, IBM Deutschland's placid headquarters is an unlikely spot from which to launch a revolution. But that's exactly what Hans-Olaf Henkel, chief executive of IBM's \$10 billion-a-year German subsidiary, is attempting.

At a boardroom breakfast on June 30, Henkel disclosed that IBM would pull 17,500 of its 24,500 workers out of the national labor contract with IG Metall, Germany's most powerful union. Demanding "performance and results"—and 5% annual productivity gains—Henkel plans to create four operating companies. Only one, the 7,000-employee manufacturing unit, will remain under contract. Says Henkel: "It's the first time someone has dared escape the stranglehold of the metalworkers."

That may be so. But many employers already are doing more than just complaining about high German wages and restrictive work rules. Across the country, the comfortable and costly labor-management consensus in place for decades is starting to crack in the face of recession, looming European free trade, and global competition.

Earlier this year, public workers backed off on demands for double-digit pay hikes after Chancellor Helmut Kohl

stood his ground during 11 days of strikes. And big manufacturers are stepping up offshore investments in search of cheap labor. BMW is building its next plant in South Carolina. Daimler-Benz and Volkswagen are moving offshore. And even IBM is selling Europeans a line of Asian-made PCs.

What's bothering employers as much as Germany's \$28-per-hour manufacturing labor costs are work rules that sharply limit their flexibility. IBM now pays workers more than union scale and is likely to continue doing so. But with the company forced to spread 90% of its pay hikes across its entire work force, Henkel complains he hasn't been able to reward productive workers. He and other employers also rail at deals in several industries to shrink the work week to 35 hours by 1995, from 37 now. "IBM's move worries us," concedes Hermann Zoller of the IG Medien publishing and communications union.

Labor could still try to blunt IBM's move. Henkel is pulling IBM out of an employers' federation that negotiates wages industrywide. But under German law, he still is obliged to deal with the company's workers' council. That requirement has enabled IG Metall to force 1,500 other breakaway employers into deals similar to ones reached by bigger companies. But there's no guarantee that the metalworkers will succeed against the powerful IBM.

STERN WARNING. Indeed, even before Henkel's bombshell, pattern bargaining was fraying. In eastern Germany, employers are fighting to impose deals reflecting the region's lower productivity. And publishing giant Gruner & Jahr, using a variant of IBM's tactic, has pulled a plant near Hamburg out of the Print Industry Employers' Federation so it could print *Stern* magazine on weekends. That practice had been banned under a pact on working conditions.

With German manufacturers opening plants everywhere from Czechoslovakia to South Carolina to slash production costs, it will be harder and harder to justify such restrictions. Finally, the global economy is catching up with Germany's well-paid unions.

By John Templeman in Stuttgart, with Ann Hollifield in Bonn



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"That's absolutely not the case," Ray

Rosewall says of his friends' comments.

"Mobile, especially, is very forward-thinking in attracting new business, very open to change." He adds, "The city is much more of a melting pot of people than I expected." Concerning the work force, Ray says, "They're very hard-working and take pride in their work that you don't find in the rest of the country. As for professionals, we've found many bright engineers from the state's universities."

Tim and Pat Langan didn't really expect to move to

Alabama when they came here for Tim's interview with the Alabama Shakespeare Festival. "But we saw the best production of Chekhov ever, and made up our minds at intermission," Tim says. "We felt that working with a theater that draws from all over the nation, even 64 foreign countries, would be an excellent opportunity. And I've never seen such strong community support for a theater."

The Langans, who have a six-year-old son and a 16-year-old daughter, say that the move from Rhode Island to Alabama has

Given us our family back... the family unit is more together here, and people know how to relax and

enjoy themselves."

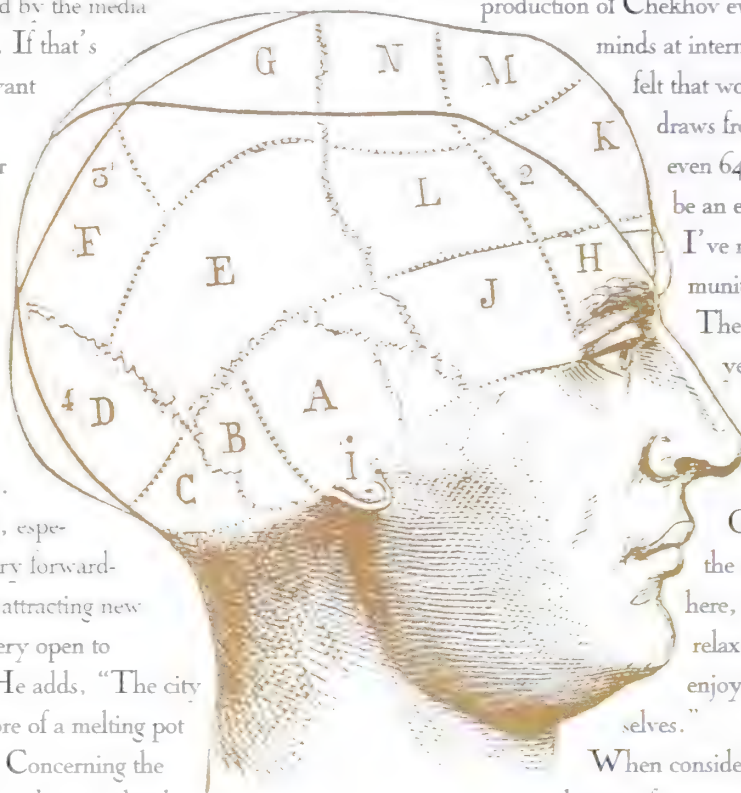
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or business, don't close your mind to Alabama. Because a closer look at us could broaden your mind. And your possibilities.



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Ray Rosewall, Executive Vice President, JVS USA



"We expected Shakespeare to be performed with Southern accent!"

Tim Langan, Managing Director, The Alabama Shakespeare Festival, Montgomery



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YUGOSLAVIA: IS COMMANDER BUSH TAKING CHARGE?

It was hardly the European Community's finest performance. During the past year, Yugoslavia's civil war has driven up body counts in Vukovar, Dubrovnik, and Sarajevo. Yet, with their incessant squabbling, EC diplomats have even themselves incapable of handling the crisis. So, President George Bush is now leading the crusade. Backed by the U.N., he's vowing to use U.S. military force to get supplies to battered Sarajevo, capital of breakaway republic Bosnia-Herzegovina. So much for the grand notion of an independent EC foreign policy. For now at least, the U.S. still calls the shots on Europe's security.

Yet for Bush, who faces a tough reelection campaign, the strategy could backfire. The military mission doesn't compare with booting Saddam Hussein out of Kuwait. The Yugoslavian conflict is sticky, fratricidal civil war more like Vietnam, complete with guerrillas and snipers. Nor does the U.S. have a compelling economic interest, such as oil, in the region. Even so, on June 30, Bush ordered U.S. Navy and Air Force jets to take cover for U.N. troops and supply convoys on the ground. He ordered six ships carrying Marines into the Adriatic. Two U.S. military cargo planes are ready to fly supplies into Sarajevo.

PRIZE VISIT. The U.S.'s global-cop gambit will also complicate relations with the Europeans, particularly France. The U.S. fumbling on the issue plays into the hands of Pentagon officials, who want to refashion the U.S.-led NATO as Europe's primary security organization. If it deals successfully with the Yugoslavian crisis, NATO will be encouraged to play police in other troubled spots. The idea, says one senior Administration official, is "to get to conflicts before they arise." The French, who prefer an all-European defense structure, have a diminished NATO, strongly resent Washington's continued

domination of Europe's foreign policy. Such irritants have already come to play in the Yugoslavian crisis. When he paid a surprise visit to Sarajevo on June 28, French President François Mitterrand was as much driven by a desire to one-up Bush as to draw attention to the city's plight. When the U.N. sent more than 800 troops to Sarajevo, Mitterrand quickly announced that some 450 French soldiers would join them.

But whatever their nationalities, the troops face huge obstacles. The Sarajevo airport is surrounded by mountains as high as 7,000 feet, offering Serbian artillery units the high ground. Even if the airport remains open, it's not big enough to supply the city. To do that, the U.N. will need to secure a 160-mile land corridor from the Croatian port of Split.

LOCAL FEUD. If things turn bloody, the U.N. likely will ask for U.S. airpower to root out Serbian artillery positions near Sarajevo. Bush has ruled out using ground troops. Yet if U.S. pilots are captured or killed, U.S. public opinion could force him to back off, eroding his credibility as the Mr. Fix-it of world diplomacy. The Serbs also could pull back and attack other cities, making Bush's effort pointless. "I think we ought to stay out," warns retired Marine Lieutenant General Bernard Trainor. "That has been a center of violence for centuries."

Now that the world's remaining superpower is on the scene, the Serbs have a new rallying point. This may only preserve the regime of Serbian leader Slobodan Milosevic, who had been facing opposition at home. It is the kind of local feud the Administration would rather let the Europeans handle. But they're not. Bush is putting the U.S. in a situation more complicated than most Americans imagine.

By Brian Bremner in Washington and Bill Javetski in Paris



IN SARAJEVO: THE EC HAS BEEN LETHARGIC

DEAL WRAPUP

ISRAEL

For beleaguered McDonnell Douglas Corp., the stunning victory of Israel's Labor Party in general elections is good news. Fearing political fallout in an election year, the Bush Administration had sidelined the company's bid to sell F-15 fighters to Saudi Arabia. But Labor's gain could pave the way for a thinly veiled quid pro quo that would give the F-15 deal a green light.

Yitzhak Rabin, the new Israeli Prime Minister, has pledged to freeze construction of Jewish settlements in the West Bank. In return, the White House is likely to reward Israel by

approving some of the \$10 billion in U.S. loan guarantees it wants to help house former Soviet Jews. That, Capitol Hill and defense-industry sources say, could defuse congressional and voter opposition to the F-15 sale. For McDonnell, the stakes are big. Already, 1,000 workers have been laid off, and without a Saudi order, the F-15 line will go cold in 1994.

EUROPEAN COMMUNITY

Now that Jacques Delors will be European Commission president for two more years, the politicking is hot and heavy to fill the seats of the 16 other EC commissioners. Some stalwarts seem sure to stay, such as

antimonopoly czar Sir Leon Brittan and single-market chief Martin Bangemann. Yet several of Europe's biggest political personalities are rumored contenders for other posts.

Neil G. Kinnock, the gadfly from the U.K.'s Labor Party, may replace Bruce Millan as regional policy chief. And former Italian foreign minister Gianni De Michelis wants to succeed Frans Andriessen as EC foreign policy commissioner. Another spot available is environment commissioner. The last one, Carlo Ripa di Meana of Italy, resigned after he refused to attend the Rio Earth Summit, complaining that the EC failed to back his positions.

BRITAIN'S RATHER GOOD SHOW

THE U.S. DIDN'T DO BADLY, EITHER. BUT JAPAN TOOK A DIVE

Studying the British economy can be a grim exercise. Locked in the longest recession since World War II, Britain is struggling. The jobless rolls have risen by 1 million people, while corporate bankruptcies are hitting record levels. Consumer confidence is faltering. And one of the nation's biggest industrial companies, British Petroleum PLC—buffeted by huge debts and internal dissonance—sacked its chairman, Robert B. Horton, in late June.

But there's some good news behind the gloom. Despite the country's troubles, a growing number of British-based companies are becoming world class, selling products as diverse as the antiulcer drug Zantac and Johnnie Walker Scotch whisky. Results of BUSINESS WEEK's fifth annual Global 1000, which ranks the world's largest companies by market capitalization, reveal solid, sometimes spectacular, gains by British companies. Led by big jumps in value at drugmaker Glaxo, drinks producer Guinness, and consumer-products giant Grand Met, Britain added 16 companies to this year's Top 1000, second only to the U.S., which added 24. Overall, Britain added \$162 billion to its total market capitalization, up 26% over the year before.

'BUY THE WORLD.' The strong British showing underscores a major theme running through much of the list: In a period of slow growth across much of Europe and Japan and only a modest pickup in the U.S., investors turned to recession-resistant companies with solid brand names and a broad spread of international activities. What's more, investors favored companies that have

taken big restructuring hits or digested big acquisitions—or both—and now are emerging as industry leaders. Many such seasoned operations are found in Britain. Says Eric Elstob, joint managing director of Foreign & Colonial Investment Trust PLC: "If there is one place to buy the world economy, it's in London."

The Global 1000, compiled by Geneva-based Morgan Stanley Capital International, tracks 2,500 companies in 22 countries in developed markets. The publicly traded companies are ranked on a worldwide basis, using market value and oth-

foreigners to enter or aren't tracked Morgan Stanley.

After Britain's noteworthy gains, the next big trend was Japan's slide. Matsushita Electric Industrial Co. suffered a \$25 billion drop in market value. Indeed, the 29% drop in the Nikkei stock average in the period measured sent Japanese companies down the rungs of the Global 1000. Ford fell out of the Top 10, and 44 of the biggest 50 decliners in market value were Japanese. Japan's banks have been clobbered by real estate loan problems and steep falls in their equity portfolios.

Japan's only conspicuous gainer: Toyota Motor Corp., flush with \$13.5 billion in cash and liquid investments, boasts a dominant market share at home and rising one in the U.S. As a result, Toyota jumped to No. 11.

HAVENS. There's a question that the "bubble years" in Japan are over and that a shakeout is now under way across a wide swath of industries. Only a fraction of Japan's Global 1000 companies have been left untouched. Yet mindful of the \$3.5 billion spent by Japanese companies during the late 1980s on research and development

plant and equipment, economic analyst and author Naoki Tanaka argues that "the market crash has had hardly any impact on the competitiveness of Japanese companies."

Competitiveness aside, American companies outdid the rest of the world on this year's list, grabbing the lion's share of total market value. Well-run old rebbles that weathered the U.S. recession, such as Exxon, Philip Morris, and General Electric, solidified their claims on



er data as of May 29. A country-by-country listing follows, putting market performance in a national context. The list also incorporates data on U.S. companies from Standard & Poor's Compustat Services Inc. To cast the net as wide as possible, BUSINESS WEEK adds a separate table (page 104) ranking top companies in South Korea, Taiwan, Brazil, and Mexico by sales and profits. These four countries have global-scale companies, but their markets are either difficult for

HOW THE GIANTS STACK UP

SALES

Billions of U.S. dollars

1. C. ITOH	\$151.6
2. SUMITOMO	149.7
3. MITSUI	148.2
4. MITSUBISHI	140.4
5. MARUBENI	139.2
6. EXXON	115.0
7. GENERAL MOTORS	105.0
8. ROYAL DUTCH/SHELL	102.7
9. NISSHO Iwai	97.3
10. FORD MOTOR	88.3

SHARE-PRICE GAIN

Percent from 1991, U.S. dollars

1. CISCO SYSTEMS	184%
2. GOODYEAR TIRE & RUBBER	169
3. NEWS CORP.	139
4. AUTOZONE	133
5. FRUIT OF THE LOOM	132
6. MICHELIN	127
7. HANG SENG BANK	110
8. MIDLAND BANK	107
9. WHARF (HOLDINGS)	99
10. SIEBE	99

PROFITS

Billions of U.S. dollars

1. EXXON	\$5.60
2. GENERAL ELECTRIC	4.44
3. ROYAL DUTCH/SHELL	4.29
4. PHILIP MORRIS	3.93
5. BRITISH TELECOM	3.64
6. TOYOTA MOTOR	3.13
7. MERCK	2.12
8. UNILEVER	2.09
9. BRISTOL-MYERS SQUIBB	2.06
10. BRITISH GAS	2.03

RETURN ON EQUITY

Percent

1. DORTSCHE PETROLEUM	207.9%
2. SMITHKLINE BEECHAM	90.8
3. AVON PRODUCTS	83.2
4. POLYGRAM	60.4
5. CANAL PLUS	59.9
6. FREEPORT McMORAN C&G	59.4
7. UST	53.7
8. RENTOKIL GROUP	53.0
9. HONG KONG TELECOM	52.8
10. WOLTERS KLUWER	50.8

Top 10. And new entrants to the lofty ranks, such as Coca-Cola Co. at No. 7, reflect investor appetite for proven global leaders in consumer products. Another clear beneficiary of safe-haven investing: Wal-Mart Stores Inc. In a bombed-out retail sector, this discount par excellence continued its climb and now ranks an eye-popping No. 6 among all companies, worth \$61 billion.

Britain's market success in this period holds some sober lessons for its economy as a whole. By and large, the winners are consumer and drug companies that have spent heavily developing and nurturing brands sold around the world. At the same time, the Global 1000 shows the waning importance of manufacturing in the British economy.

True, conglomerates Hanson, BTR, and Imperial Chemical Industries are industrial powerhouses. But the big industrials, along with consumer-product companies, are increasingly putting their assets overseas—not at home.

A HEYDAY? That's a worrying long-term trend for the domestic British economy. David C. Roche, chief global strategist at Morgan Stanley International, expects the next few years to be a heyday for capital-goods and other manufacturing companies in most economies. But "in the back-to-basics shift," he says, "Britain will lag behind."

The shakeup at BP (page 44) is a stark example of weakness behind the year's gains. Consider its fortunes contrasted with archival Royal Dutch/Shell Group. Although slow growth around the world has taken its toll on the Anglo-Dutch company, its resilience and impeccable balance sheet have won over investors. So much so, in fact, that it edged out Japan's giant NTT to take the No. 1 spot in the Global 1000.

On the Continent, dozens of big European companies are proving their mettle during tough times by driving down costs and successfully absorbing competitors. Although Germany has relatively few big, publicly held companies, they are formidable players. Allianz Holding, now Europe's largest insurer, shook off investor worries about its acquisition binge a year ago and has jumped to No. 30 on the Global 1000, just

as a downturn in the insurance cycle seems to be taking hold. Daimler Benz, which is in some ways a proxy for Germany Inc., is confident that its earnings are firmly on the upswing as German growth picks up. Even so, 39th-ranked Daimler, with a market capitalization of \$23.5 billion, is ruthlessly slashing costs and dumping businesses that can't become world players.

SPANISH PLEDGE. The relatively healthy, low-inflation French economy provided a fillip to powerful supermarket discounters Carrefour. Although Carrefour has had difficulties in the U.S., the company consolidated its leadership in French food retailing with the \$950 million purchase last year of Euromarche. Invest-

such Spanish companies as Endesa, the largest electric company, and newly merged electric utility Iberdrola.

In contrast to Spain's vitality, Italy is in deep decline, stuck in political gridlock and plagued by swelling budget deficits. Its sagging economy is dragging down blue chips. Auto maker Fiat has lost a huge chunk of market share down from 54% to 44%, over the past two years, and lost 6% of its market value this year, down to \$9.35 billion. Although Milan's Montedison still enjoys rich earnings in agroindustry, its \$5 billion in debt makes it difficult for the company to rebound from a deep slump in chemicals. It lost ground on this year's list, as well. Overall, Italian companies have been slow

to establish themselves in Europe.

BOOMING. No such stay-at-homes plague Hong Kong, where worries about the handover of power to China have been set aside. The Hang Seng index up a blistering 56% this year, highest of any major market. Booming real estate values, tied to the demand for housing by newly affluent young families, have pushed Wharf Holdings, Henderson Lar and Hong Kong Land high up the ranks of the Global 1000. There's the frantic trade with China's Guangdong Province, which is lifting the big trading houses, Jardine Matheson and Swire Pacific Ltd. These old-style British trading companies are benefiting greatly from the blurring of boundaries between southern China,

Hong Kong, and even Taiwan.

This border-leaping ability is one characteristic of most of this year's Global 1000 gainers. Another is strong brand names, whether Coca-Cola, Toyota, or Smirnoff. These kinds of companies can ride out currency swings and stock market fluctuations. They also eke out profit gains in slow-growth economies because of their brand names and strong core areas. At the same time, they are big enough and savvy enough to tap into emerging markets in faraway lands. Across the globe, it's clear the formula works through bad times as well as good.

By Richard A. Melcher in London, with bureau reports

EUROPE'S BIG GAINERS: BRITAIN LEADS THE WAY

Company	Country	1992 market value (billions)	Increase in market value from 1991 (billions)
1. GLAXO HOLDINGS	Britain	\$42.6	\$12.6
2. WELLCOME	Britain	15.3	6.9
3. GUINNESS	Britain	21.4	6.6
4. GRAND METROPOLITAN	Britain	19.3	6.2
5. BTR	Britain	17.2	5.7
6. ROCHE HOLDING	Switzerland	20.8	5.6
7. MARKS & SPENCER	Britain	17.0	5.4
8. J. SAINSBURY	Britain	15.2	5.1
9. TOTAL FRANCAISE PETROLES	France	9.2	4.3
10. CIBA-GEIGY	Switzerland	14.2	4.3
11. L'OREAL	France	9.9	4.2
12. SMITHKLINE BEECHAM	Britain	21.2	4.1
13. B.A.T. INDUSTRIES	Britain	21.9	4.1
14. ENDESA	Spain	9.5	3.9
15. ALCATEL ALSTHOM	France	14.8	3.7
16. SIEMENS	Germany	23.1	3.5
17. BSN	France	11.9	3.3
18. ELF AQUITAINE	France	18.9	3.3
19. REUTERS HOLDINGS	Britain	9.5	3.2
20. RHONE-POULENC	France	6.6	3.2

DATA: MORGAN STANLEY CAPITAL INTERNATIONAL INC.

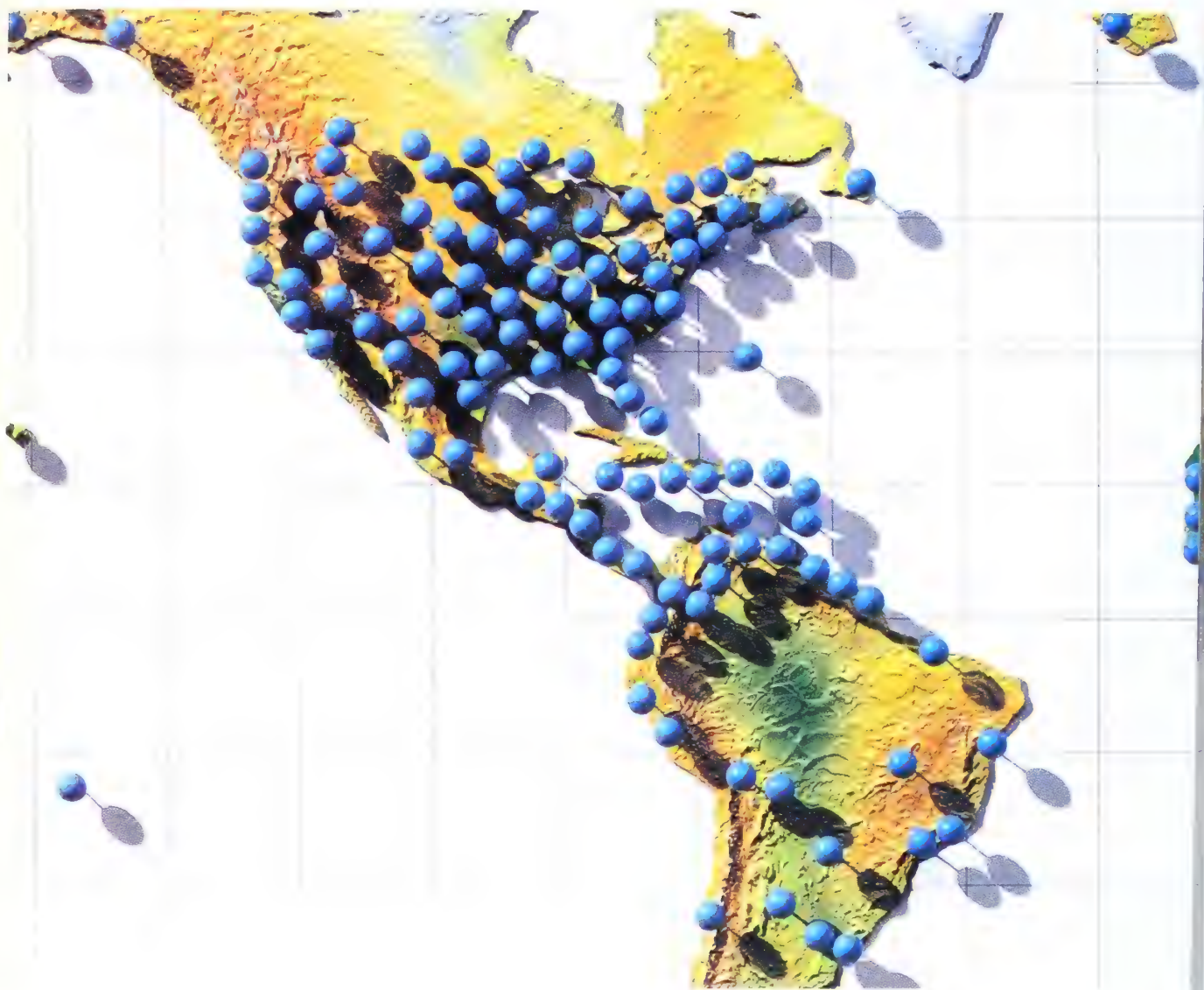
tors are also spotting a turnaround story at the world's largest tiremaker, Michelin. After \$900 million in restructuring costs over the past two years, Michelin rejoined the Global 1000 after falling off the list last year.

Spanish Prime Minister Felipe González' firm signal that he has joined Europe's free-market enthusiasts is invigorating industry in Spain, from electric utilities to banks. Tight fiscal and monetary discipline is helping to bolster investor confidence and lift a growing number of Spanish companies into the Global 1000. Pryca, a retailer partially spun off by Carrefour, made the list this year. And a move to cleaner sources of energy supply and freer prices have benefited

The Global 1000 — The Leaders

RANK 1991	Billions of U.S. dollars	MARKET VALUE	RANK 1992	1991	Billions of U.S. dollars	MARKET VALUE
2	ROYAL DUTCH/SHELL GROUP	Neth./Britain 77.82	51	29	HITACHI LTD.	Japan 20.64
1	NIPPON TELEGRAPH & TELEPHONE	Japan 77.52	52	61	HANSON TRUST	Britain 20.59
3	EXXON	U.S. 75.30	53	57	BRITISH GAS	Britain 20.49
6	PHILIP MORRIS	U.S. 71.29	54	64	DEUTSCHE BANK	Germany 20.16
4	GENERAL ELECTRIC	U.S. 66.00	55	78	WALT DISNEY	U.S. 19.79
14	WAL-MART STORES	U.S. 60.82	56	104	GRAND METROPOLITAN	Britain 19.33
20	COCA-COLA	U.S. 58.47	57	45	ELI LILLY	U.S. 19.31
15	MERCK	U.S. 58.41	58	101	HEWLETT-PACKARD	U.S. 19.12
18	AMERICAN TELEPHONE & TELEGRAPH	U.S. 55.85	59	74	ELF AQUITAINE	France 18.87
7	INTERNATIONAL BUSINESS MACHINES	U.S. 51.82	60	47	KANSAI ELECTRIC POWER	Japan 18.50
16	TOYOTA MOTOR	Japan 43.97	61	56	BELL ATLANTIC	U.S. 18.50
26	GLAXO HOLDINGS	Britain 42.64	62	51	ATLANTIC RICHFIELD	U.S. 18.18
19	BRITISH TELECOMMUNICATIONS	Britain 40.45	63	76	SOUTHWESTERN BELL	U.S. 18.08
9	MITSUBISHI BANK	Japan 39.84	64	54	AMERICAN INTERNATIONAL GROUP	U.S. 17.94
17	BRISTOL-MYERS SQUIBB	U.S. 37.60	65	69	ASSICURAZIONI GENERALI	Italy 17.75
11	SUMITOMO BANK	Japan 37.12	66	50	WASTE MANAGEMENT	U.S. 17.65
22	DU PONT	U.S. 35.41	67	73	IMPERIAL CHEMICAL INDUSTRIES	Britain 17.48
28	PROCTER & GAMBLE	U.S. 34.74	68	49	BANK OF TOKYO	Japan 17.32
10	DAI-ICHI KANGYO BANK	Japan 34.68	69	119	BTR	Britain 17.20
5	INDUSTRIAL BANK OF JAPAN	Japan 34.04	70	91	BROKEN HILL PROPRIETARY	Australia 17.13
8	FUJI BANK	Japan 33.99	71	118	MARKS & SPENCER	Britain 16.97
25	JOHNSON & JOHNSON	U.S. 32.28	72	108	MCDONALD'S	U.S. 16.74
12	SANWA BANK	Japan 30.41	73	71	AMERITECH	U.S. 16.62
39	UNILEVER	Neth./Britain 29.77	74	68	TEXACO	U.S. 16.54
21	TOKYO ELECTRIC POWER	Japan 29.25	75	83	DOW CHEMICAL	U.S. 16.51
13	SAKURA BANK	Japan 29.05	76	70	PACIFIC TELESIS	U.S. 16.42
38	PEPSICO	U.S. 28.96	77	41	NIPPON STEEL	Japan 16.34
42	ABBOTT LABORATORIES	U.S. 28.50	78	90	SEVEN-ELEVEN JAPAN	Japan 16.23
36	GTE	U.S. 27.89	79	60	TOSHIBA	Japan 16.00
33	ALLIANZ HOLDING	Germany 27.48	80	79	SCHLUMBERGER	U.S. 15.78
31	GENERAL MOTORS	U.S. 27.40	81	59	MITSUBISHI HEAVY INDUSTRIES	Japan 15.59
24	BRITISH PETROLEUM	Britain 26.95	82	201	BANKAMERICA	U.S. 15.58
30	MOBIL	U.S. 25.89	83	89	NYNEX	U.S. 15.48
35	CHEVRON	U.S. 24.75	84	200	WELLCOME	Britain 15.35
43	NESTLE	Switzerland 24.60	85	82	ANHEUSER-BUSCH	U.S. 15.32
53	PFIZER	U.S. 24.60	86	109	FEDERAL NATIONAL MORTGAGE ASSN.	U.S. 15.25
32	AMOCO	U.S. 24.38	87	150	J. SAINSBURY	Britain 15.17
55	AMERICAN HOME PRODUCTS	U.S. 23.71	88	95	SEARS, ROEBUCK	U.S. 15.01
48	DAIMLER-BENZ	Germany 23.50	89	205	HOME DEPOT	U.S. 14.98
40	BELLSOUTH	U.S. 23.16	90	66	BOEING	U.S. 14.97
52	SIEMENS	Germany 23.14	91	128	ALCATEL ALSTHOM	France 14.76
37	MATSUSHITA ELECTRIC INDUSTRIAL	Japan 22.63	92	72	CHUBU ELECTRIC POWER	Japan 14.67
23	NOMURA SECURITIES	Japan 22.10	93	27	LONG-TERM CREDIT BANK OF JAPAN	Japan 14.61
62	B.A.T. INDUSTRIES	Britain 21.89	94	34	TOKAI BANK	Japan 14.59
63	FORD MOTOR	U.S. 21.45	95	114	SANDOZ	Switzerland 14.58
85	GUINNESS	Britain 21.36	96	87	US WEST	U.S. 14.26
107	MICROSOFT	U.S. 21.32	97	105	ITO-YOKADO	Japan 14.22
65	SMITHKLINE BEECHAM	Britain 21.21	98	152	CIBA-GEIGY	Switzerland 14.16
46	MINNESOTA MINING & MFG.	U.S. 20.96	99	113	KELLOGG	U.S. 14.07
80	ROCHE HOLDING	Switzerland 20.82	100	156	HONG KONG TELECOMMUNICATIONS	Hong Kong 14.04

Global computing.



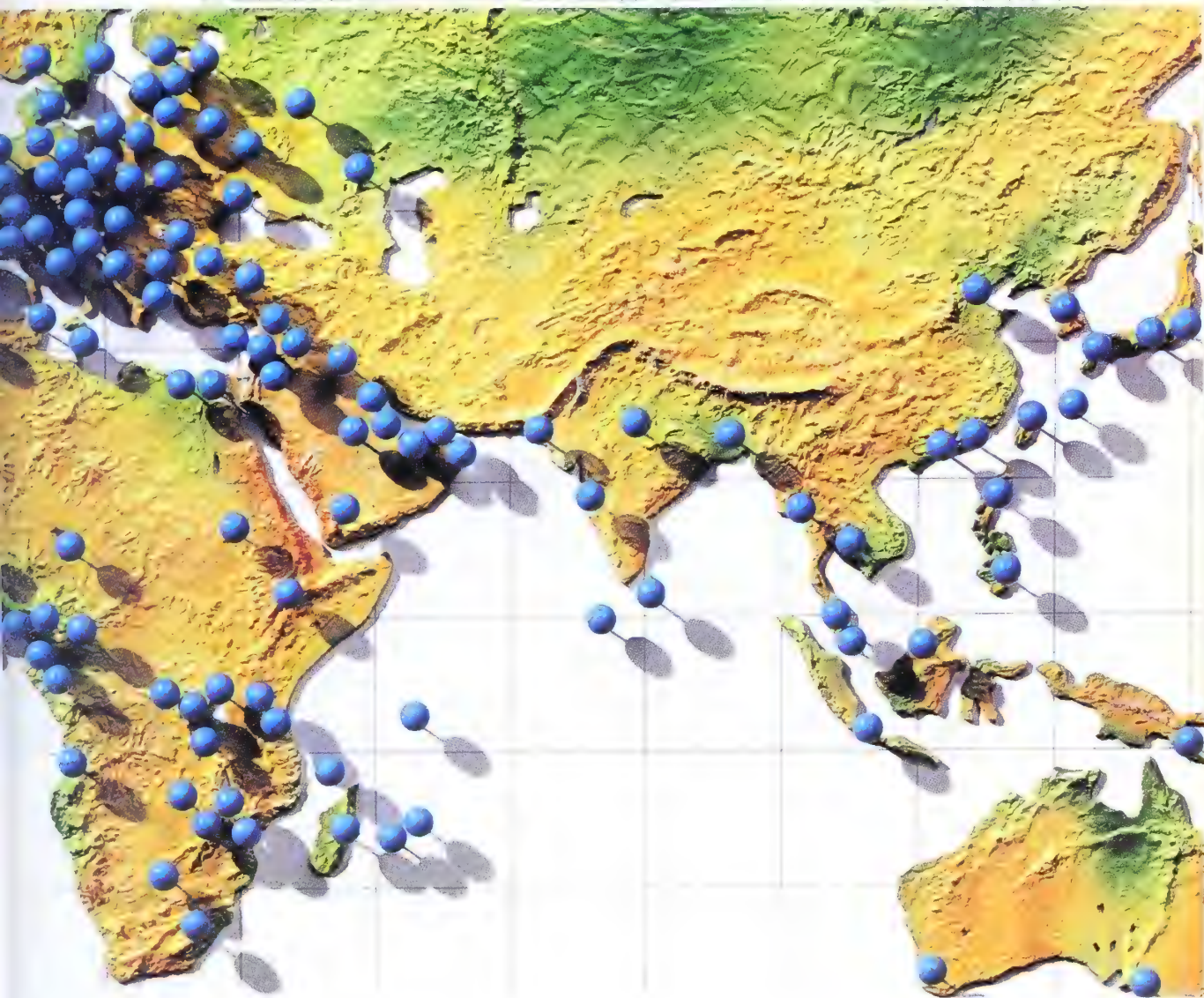
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THE BUSINESS WEEK GLOBAL 1000

COUNTRY BY COUNTRY

GLOSSARY

MARKET VALUE:

Price on May 29, 1992, multiplied by the available number of shares outstanding, translated into U. S. dollars at May 29 exchange rates. Market value may include all classes of stock; price and yield data based on the company's most widely held shares.

PERCENTAGE PRICE AND ANNUAL CHANGE:

Percentage change in share price on May 29, 1992, in U. S. dollars. Annual percent change from May 1991, to May 29, 1992, both in U. S. dollars in each company's local currency.

PRICE/BOOK VALUE RATIO:

The ratio of May closing price to latest available net worth per share or common shareholders' equity investment.

PRICE/EARNINGS RATIO:

The ratio of May closing price to latest 12 months' earnings per share.

YIELD:

Latest 12 months' dividends per share as a percent of May closing price.

SALES:

Net sales reported by company, translated at May 29 exchange rates; revenues for banks and other financial institutions are not included because they are not comparable to those of industrial companies.

PROFITS:

Latest aftertax earnings available to common shareholders, translated at May 29 currency exchange rates; profits are from companies' continuing operations before extraordinary items. Sales, profits, and assets are for 1991 fiscal year unless noted.

RETURN ON EQUITY:

Latest 12-months' earnings per share as percent of most recent book value per share.

INDUSTRY CODE:

For key to the two-digit code, see page 104.

Data for individual companies: Morgan Stanley Capital International, unless otherwise indicated. Country composites and rankings calculated by BUSINESS WEEK. Additional data by Standard & Poor's Compustat Services Inc. if footnoted.

	GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %	INDUSTRY CODE
GLOBAL COMPOSITE	6762936	177	11	7	2.5	20	3.0	7704781	317867	23325369	14.3		
AUSTRALIA													
COUNTRY COMPOSITE	90819	6	20	20	1.8	18	3.5	71337	4959	326751	10.3		
Broken Hill Proprietary	70	17134	11	16	16	2.8	23	2.8	11878	915	16644a	12.0	11
National Australia Bank	237	7522	6	19	20	1.3	13	5.6	NA	576	73909	9.7	61
CRA	285	6592	11	17	17	1.9	25	2.3	3761	266	6166	7.8	24
News Corp.	333	5838	17	139	139	0.8	15	0.5	8439	247	19115	5.2	51
Coles Myer	376	5180	10	15	16	2.5	19	3.0	11623	286	4300	13.4	54
BTR Nylex	401	4930	2	-7	-7	2.3	23	3.4	3758	266	4768a	9.9	37
Commonwealth Bank of Australia	407	4858	6	NA	NA	NA	22	2.6	NA	205	69	NA	61
ANZ Banking Group	496	3991	3	19	20	0.9	19	4.7	NA	213	78505	4.7	61
Western Mining	516	3832	4	11	11	1.7	12	3.2	1185	278	3142	13.9	24
Pacific Dunlop Olympic	533	3726	4	5	6	2.4	23	3.8	3786	185	3572	10.5	71
Westpac Banking	577	3493	3	27	26	0.6	LOSS	7.0	NA	261	84732	NEG	61
Fosters Brewing Group	591	3414	2	30	31	1.8	15	1.5	8178	166	7002	12.2	43
M. I. M. Holdings	667	2962	2	69	69	1.4	LOSS	1.4	1515	-3	3993	NEG	24
Amcor	679	2883	6	42	43	2.0	15	3.7	3381	175	2938	13.8	23
CSR	709	2783	3	-20	-20	1.3	16	5.8	3537	251	4814	7.9	71
Brambles Industries	726	2720	13	3	3	2.5	19	3.1	1761	153	1965	13.2	52
End Lease	809	2458	12	0	1	1.9	15	3.9	1109	141	1959	12.4	64
Boral	837	2364	3	-4	-4	1.4	18	4.7	2953	162	3259	8.0	21
Pioneer International	906	2155	3	34	34	1.6	17	4.5	4132	126	3642	9.5	21
Moodside Petroleum	981	1985	3	19	20	2.3	23	2.0	339	89	2255	10.3	11
AUSTRIA													
COUNTRY COMPOSITE	9243	151	-17	-23	2.6	38	1.5	1346	296	107100	7.0		
Österreichische Bank Austria	424	4732	91	NA	NA	NA	36	1.4	NA	170*	45593a	NA	61
ÖA-Generali	854	2318	310	-3	-10	4.3	37	0.4	1346a	67a	5121a	11.6	63
Kreditanstalt-Bankverein	894	2193	51	-32	-37	1.0	40	2.6	NA	59	56386	2.5	61
BELGIUM													
COUNTRY COMPOSITE	39386	191	9	2	1.8	14	5.2	52645	3440	226861	11.9		
Petrofina	235	7555	325	-2	-8	2.0	16	5.2	19131	505	11530	12.8	11
Electrabel	259	7067	138	9	1	1.3	10	8.1	5913a	750a	13693a	11.1	12
Société Générale de Belgique	497	3987	67	4	-3	0.9	17	5.0	NA	243	19018a	5.2	71
Electrabel	603	3362	248	4	-3	1.3	13	5.2	7538	282	16766a	10.2	71
Galvay	614	3281	396	4	-3	1.2	11	5.1	8144	543a	8911a	11.0	22

On nonconsolidated results. ** Based on nonconsolidated earnings per share and consolidated book value per share. a) Based on 1990 data. b) Based on 1992 data. c) Partial year data before fiscal-year change. 1) Global ranking calculated for Royal Dutch/Shell Group combining market value of the Netherlands' Royal Dutch Petroleum and Britain's Shell Transport & Trading. 2) Global ranking calculated for Unilever by combining market value of the Netherlands' Unilever NV and Britain's Unilever PLC. 3) Global ranking calculated for Eurotunnel by combining market value of the United Kingdom's Eurotunnel (London) and Eurotunnel (Paris). Sales, profits, and assets in the individual country listings are for the three combined companies above; share price and relative ratios are for separate companies. 4) Global ranking calculated for ABB Asea Brown Boveri by combining market value of Sweden's ASEA and Switzerland's BBC Brown Boveri. 5) Global ranking calculated for USX-Marathon Steel Groups by combining market value of USX-Marathon Group and USX-U. S. Steel Group. 6) Data for this company provided by Standard & Poor's Compustat Services Inc. Unless otherwise indicated, all other data provided by Morgan Stanley Capital International. LOSS = Negative ratio. NA = Not available. NEG = Negative return. NM = Not meaningful. NR = Not ranked.

[illegible]

COUNTRY COMPOSITE	777168	9	23	15	2.9	29	4.8	752867	45716	2030398	17.7
Glaxo Holdings	1	10000	1	10	10	10	10	10000	100	10000	100
British Telecommunications	1	10000	1	10	10	10	10	10000	100	10000	100
Shell Transport & Trading	1	10000	1	10	10	10	10	10000	100	10000	100
British Petroleum	1	10000	1	10	10	10	10	10000	100	10000	100
B. A. T. Industries	1	10000	1	10	10	10	10	10000	100	10000	100
Guinness	1	10000	1	10	10	10	10	10000	100	10000	100
SmithKline Beecham	1	10000	1	10	10	10	10	10000	100	10000	100
Hanson Trust	1	10000	1	10	10	10	10	10000	100	10000	100
British Gas	1	10000	1	10	10	10	10	10000	100	10000	100
Grand Metropolitan	1	10000	1	10	10	10	10	10000	100	10000	100
Imperial Chemical Industries	1	10000	1	10	10	10	10	10000	100	10000	100
BTR	1	10000	1	10	10	10	10	10000	100	10000	100
Marks & Spencer	1	10000	1	10	10	10	10	10000	100	10000	100
Wellcome	1	10000	1	10	10	10	10	10000	100	10000	100
J. Sainsbury	1	10000	1	10	10	10	10	10000	100	10000	100
Unilever PLC	1	10000	1	10	10	10	10	10000	100	10000	100
RTZ	1	10000	1	10	10	10	10	10000	100	10000	100
Cable & Wireless	1	10000	1	10	10	10	10	10000	100	10000	100
General Electric	1	10000	1	10	10	10	10	10000	100	10000	100
Barclays Bank	1	10000	1	10	10	10	10	10000	100	10000	100
Allied-Lyons	1	10000	1	10	10	10	10	10000	100	10000	100
National Westminster Bank	1	10000	1	10	10	10	10	10000	100	10000	100
Lloyds Bank	1	10000	1	10	10	10	10	10000	100	10000	100
Bass	1	10000	1	10	10	10	10	10000	100	10000	100
Tesco	1	10000	1	10	10	10	10	10000	100	10000	100
Reuters Holdings	1	10000	1	10	10	10	10	10000	100	10000	100
Boots	1	10000	1	10	10	10	10	10000	100	10000	100
Prudential	1	10000	1	10	10	10	10	10000	100	10000	100
Argyll Group	1	10000	1	10	10	10	10	10000	100	10000	100
Abbey National	1	10000	1	10	10	10	10	10000	100	10000	100
Vodafone Group	1	10000	1	10	10	10	10	10000	100	10000	100
Great Universal Stores	1	10000	1	10	10	10	10	10000	100	10000	100
Rothmans International	1	10000	1	10	10	10	10	10000	100	10000	100
Cadbury Schweppes	1	10000	1	10	10	10	10	10000	100	10000	100
Midland Bank	1	10000	1	10	10	10	10	10000	100	10000	100
BAA	1	10000	1	10	10	10	10	10000	100	10000	100
BOC Group	1	10000	1	10	10	10	10	10000	100	10000	100
Reed International	1	10000	1	10	10	10	10	10000	100	10000	100
National Power	1	10000	1	10	10	10	10	10000	100	10000	100
Lloyds Abbey Life	1	10000	1	10	10	10	10	10000			

THE GLOBAL 1000

	GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$) (LOCAL)		PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL	PROFITS U.S. \$ MIL	ASSETS U.S. \$ MIL	RETURN ON EQUITY %	INDUSTRY CODE
Rentokil Group	633	3182	3	64	54	15.3	29	1.2	727	113	504	53.0	52
Northern Foods	636	3159	11	53	44	3.2	17	3.3	2079	135	1081	18.3	44
Thames Water	641	3154	8	25	17	1.2	9	5.3	1464	338	3637	13.2	52
Bowater Industries	643	3129	15	60	50	2.7	19	3.5	2249	150	2159a	14.2	23
Williams Holdings	673	2920	6	26	18	4.8	15	4.8	1873	187	1749	31.7	21
British Steel	674	2905	1	-33	37	0.4	LOSS	14.6	8828	338	10919	NEG	25
Rolls Royce	676	2903	3	13	6	1.4	66	5.8	6570	45	5673	2.1	31
North West Water Group	685	2861	8	25	17	1.0	8	6.0	1049	338	4040	12.2	52
Lasmo	693	2820	4	-31	-36	1.1	61	5.5	525	23	7237	1.8	11
Smith & Nephew	699	2811	3	28	20	7.2	17	3.9	1480	167	1581	42.9	45
Royal Bank of Scotland Group	703	2804	4	14	7	1.0	27	5.9	NA	140	56456	3.5	61
NFC	713	2770	5	NA	NA	4.5	20	3.1	2919	131	1726	22.5	57
Scottish Power	723	2732	3	NA	NA	3.8	14	6.9	2175	270	2407	27.7	12
English China Clays	729	2714	10	59	49	1.6	17	4.8	1892	130	2319	9.3	26
Severn Trent	756	2637	7	21	13	0.8	6	5.9	1098	399	3998	12.5	52
Sears	768	2598	2	22	15	1.1	20	7.5	3542b	224	4102	5.6	54
Siebe	771	2586	13	99	86	2.4	13	3.1	2592	176a	2190a	18.2	71
Tomkins	786	2534	9	NA	NA	4.4	16	2.7	1779	119	NA	26.9	37
Tate & Lyle	803	2468	7	18	10	2.1	10	3.9	5725	228	3707	21.1	44
Blue Circle Industries	804	2468	4	9	3	1.9	12	6.1	2075	256a	3619a	15.0	21
Bank of Scotland	805	2465	2	20	12	1.5	26	4.7	NA	138	37375	5.8	61
British Aerospace	821	2433	6	-36	-40	0.5	7	9.4	19742	264	17589	7.0	31
Carlton Communications	841	2360	12	53	43	3.1	21	3.3	1054	96	1230	14.8	52
RMC Group	846	2341	11	7	0	1.9	17	4.2	5230	131	3444a	11.1	21
MB-Caradon	851	2332	5	53	44	3.2	20	3.8	1269	111	1475a	16.2	26
Anglian Water	858	2306	8	22	15	1.0	9	5.6	807	236	3133	11.7	52
Guardian Royal Exchange	861	2290	3	-23	28	1.3	LOSS	6.4	5757	-449	21409	NEG	63
W. H. Smith Group	864	2286	9	35	26	3.0	15	3.6	3375	98	1521	19.3	54
Hilldown Holdings	880	2234	3	-18	-23	1.5	9	6.5	8705	228	4222	17.8	44
Coats Viyella	881	2234	4	56	46	1.9	21	4.4	3641	108	2908	9.4	47
S. G. Warburg Group	910	2146	10	36	27	1.7	13	4.2	NA	138	26130	13.4	61
MEPC	919	2121	7	21	-26	0.6	12	7.4	NA	177	6905	4.8	64
Standard Chartered	923	2116	9	50	41	1.2	11	5.4	NA	194	43869	10.5	61
Burmah Castrol	928	2110	12	27	19	2.2	15	5.1	4393	151	3164a	14.6	11
De La Rue	931	2102	11	84	72	3.5	22	2.9	648	69	736	16.1	52
Pilkington	935	2094	3	-5	-11	1.2	59	9.5	4641	112	5187	2.1	26
Royal Insurance Holdings	940	2075	4	-43	-47	0.4	LOSS	6.4	6467	619	16651a	NEG	63
GKN	955	2040	8	33	25	1.7	30	6.3	4546	69	3121	5.5	38
Granada Group	963	2028	5	87	75	1.7	16	3.4	2439	127a	2976a	10.7	53
Willis Corroon	969	2014	5	-0	7	5.1	17	6.6	NA	120	3824	29.2	63
TI Group	971	2012	13	49	40	4.5	15	4.0	1682	134	1310	29.3	71
BET	991	1951	3	-15	-20	2.3	11	12.3	4888	240	3266	20.0	71
Eurotunnel (London) (3)	NR	1801	7	-17	-22	1.2	NM	0.0	NA	0a	7644a	0.1	52

NADA

ENTRY COMPOSITE		110318	23	-7	-2	1.7	46	3.4	86117	5091	598677	9.5	
BCE (Bell Canada Enterprises)	123	11352	37	1	4	1.3	11	5.9	17216	1151	39567	11.6	55
Seagram	126	11081	29	6	12	1.7	15	1.9	5409b	620b	11884b	11.6	43
Northern Telecom	168	9630	39	4	10	2.6	19	0.8	7085	446	9542	13.9	34
Imperial Oil	249	7224	37	21	-17	1.3	NM	4.0	8002	78	11723	1.0	11
Thomson	263	6970	12	-13	-8	2.3	23	3.6	4839	277	8172	9.9	51
Royal Bank of Canada	319	5984	19	-13	-8	1.2	8	5.0	NA	875	117705	14.3	61
Alcan Aluminium	414	4804	21	1	6	1.0	LOSS	2.8	6708	31	10823	NEG	24
Canadian Pacific	425	4732	15	-17	-12	0.8	LOSS	1.8	8719	-791	17827	NEG	71
Bank of Montreal	449	4455	37	16	22	1.5	9	4.8	NA	529	74867a	16.1	61
Toronto-Dominion Bank	480	4095	14	-16	-11	1.1	11	4.6	NA	442	61308	10.2	61
Canadian Imperial Bank of Commerce	483	4085	22	-22	-18	0.9	7	5.0	NA	722	107651	13.5	61
Shell Canada	493	4014	36	1	6	1.6	92	2.1	4145	10	5117	1.7	11
masco	551	3628	30	8	14	1.8	14	3.7	3048	287	4651	13.4	71
American Barrick Resources	572	3520	25	19	26	4.2	34	0.5	299	80	1307	12.2	61
Bank of Nova Scotia	581	3466	17	10	15	1.1	7	5.0	NA	563	78923	17.1	61
nco	632	3199	30	-15	-11	1.9	NM	3.4	2597	72	4481	1.6	24
Nova Corp. of Alberta	675	2905	7	-10	-5	2.1	NM	2.8	2661	40	5023	1.7	12
Noranda	720	2740	15	-16	-11	1.0	LOSS	5.7	7325	-115	12626	NEG	24
Saidlaw	722	2734	10	-7	-2	1.5	LOSS	1.3	1649	-288	3151	NEG	52
PanCanadian Petroleum	741	2671	21	-18	-14	2.0	NM	2.3	741	42	2532	1.2	11
Placer Dome	780	2557	11	-18	-14	2.1	LOSS	2.0	839	-210	1958	NEG	61
TransCanada PipeLines	828	2409	14	-10	6	1.7	12	4.5	2679	217	5719	3.5	12
Moore	946	2063	21	-26	-22	1.3	24	4.5	2158	76	2118	5.4	52

MARK

ENTRY COMPOSITE	16473	8250	16	8	2.3	24	3.6	3182	264	66296	11.3		
Dampskibsselskabet Af 1912	548	3649	16892	16	8	0.7	7	10.0	NA	24a	279a	10.7	58
Dampskibsselskabet Svenborg	552	3613	24166	16	8	4.7	46	1.2	NA	28a	321a	10.3	58
Novo-Nordisk	610	3305	91	41	32	2.4	20	0.7	1585	157	2164a	11.9	45
Carlsberg	618	3271	51	10	3	3.0	25	0.9	1596	121	2043	12.2	43
Den Danske Bank	758	2635	50	-3	-10	0.8	LOSS	5.2	NA	-65	61489	NEG	61

THE GLOBAL 1000

COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$)	PRICE BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %	
FRANCE													
COUNTRY COMPOSITE		254300	184	29	19	2.4	19	3.0	403202	16994	1851384	12.9	
1	Elf Aquitaine	59	18865	74	17	8	1.3	10	4.9	38676	1886	42559a	12.9
2	Alcatel Alsthom	91	14758	121	19	9	1.9	13	3.1	30787	1189	44468	15.0
3	BSN	110	11942	209	35	24	2.5	19	1.9	12713	663	13506	13.5
4	LVMH Moët Hennessy	114	11723	744	12	4	3.2	17	2.5	4240	719	8863a	19.0
5	Compagnie Générale des Eaux	156	9929	443	7	-1	3.1	21	2.6	25977	502	27857a	14.9
6	L'Oréal	157	9910	170	72	59	4.3	25	1.4	6435	415	5613	17.5
7	Total Française Pétroles	163	9169	50	49	37	1.2	9	3.9	27516	1118	21945	14.0
8	Compagnie Financière de Suez	192	8657	61	2	-6	0.9	12	3.7	NA	737	157510a	7.2
9	Union Assurances Paris	202	8335	99	-1	-9	1.3	12	3.1	20262	725	97686a	11.1
10	L'Air Liquide	206	7711	148	24	14	2.6	20	2.6	6123	410	7464	13.5
11	Société Générale	236	7544	101	34	23	1.3	12	4.1	NA	648	233981	10.8
12	Compagnie de Saint-Gobain	238	7506	111	46	34	1.4	16	3.6	14451	483	18243	8.6
13	Peugeot	245	7382	148	44	32	0.8	7	2.4	30787	1058	23458	10.8
14	Paribas	280	6642	76	-6	-14	1.0	LOSS	4.4	NA	-38	185275a	NEG
15	Rhône-Poulenc	289	6563	115	93	78	1.9	23	3.7	16129	237	21402a	8.5
16	Carrefour	298	6434	503	48	36	4.2	29	1.8	19242	233	9415	14.7
17	Axa	323	5952	194	15	6	1.1	13	3.2	NA	462a	37235a	8.2
18	BNP	373	5192	73	62	50	0.7	10	4.0	NA	565	291373a	7.1
19	Lyonnais des Eaux-Dumex	397	4949	104	2	-6	2.2	23	2.7	16834	225	22426	9.4
20	Michelin	463	4277	40	127	110	2.1	LOSS	0.0	13017	-135	14302	NEG
21	Canal Plus	469	4212	219	20	10	12.4	21	2.9	1347	208	2059	59.9
22	Crédit Lyonnais	476	4108	109	10	2	0.6	7	5.9	NA	608	286863a	8.4
23	Groupe Victoire	488	4059	238	40	29	1.8	12	2.3	NA	347	42000a	14.8
24	Havas	506	3904	100	19	10	3.5	21	1.9	5096	208	3427a	16.6
25	Euro Disney	521	3808	22	8	0	2.9	83	0.0	1094	44	2818	3.5
26	Elf Sanofi	524	3786	205	36	25	1.8	2	3.1	3772	184	4201	8.4
27	Lafarge Coppée	526	3768	69	6	-2	1.6	17	3.6	6090	237	9226	9.5
28	Thomson-CSF	594	3397	3	17	8	1.1	8	6.2	6756	452	13873a	13.5
29	Pechiney	597	3392	67	16	7	1.1	22	5.4	14316	158	14237a	4.8
30	Pernod Ricard	601	3371	287	41	30	2.7	19	3.1	3327	184	3508	14.3
31	Pechiney International	607	3257	39	31	21	1.4	27	2.6	8683	112	8086a	5.1
32	Accor	630	3217	148	11	2	2.1	23	3.0	4317	147	5309a	9.1
33	Compagnie de Navigation Mixte	681	2879	207	-8	-15	1.0	18	5.4	NA	168	9984a	5.5
34	Alcatel Câble	696	2844	816	31	21	3.4	12	3.1	5289	244	4326	28.0
35	Carnaudmetalbox	718	2745	34	38	27	1.5	17	3.0	4907	164	5147	8.3
36	Poliet	736	2686	109	38	27	1.5	16	2.5	6870	175	2836a	9.3
37	Legrand	790	2519	913	48	36	3.1	19	1.7	1911	135	2507	16.1
38	Merlin Gerin	817	2436	112	27	17	2.8	20	2.6	3962	127	3545a	14.0
39	Promodès	836	2366	702	89	75	4.1	28	1.1	14692	87	4722a	14.8
40	Groupe Schneider	890	2200	144	13	4	1.5	43	2.5	11353	53	9722a	3.4
41	Cap Gemini Sogeti	938	2088	56	-2	-10	1.5	20	3.5	1930	106	2367	7.6
42	Bouygues	939	2085	116	10	1	2.0	17	3.6	12382	122	11380a	12.0
43	Télévision Française 1	966	2022	96	77	63	10.8	32	2.3	1258	66	1126	33.7
44	Banque Worms	967	2021	64	11	-17	1.3	11	3.0	NA	193	2084a	11.9
45	Compagnie Bancaire	979	1989	85	-4	-11	1.0	13	3.3	NA	167	47681	7.7
46	Synthelabo	980	1985	220	61	49	3.5	29	1.6	665	35	537a	12.0
47	Crédit Commercial de France	986	1955	36	37	26	1.2	11	3.0	NA	159a	55588a	10.3
48	Eurotunnel (Paris) [3]	994	1788	7	19	-25	1.2	LOSS	0.0	NA	0a	7644a	NEG
GERMANY													
COUNTRY COMPOSITE		269597	429	9	1	2.9	23	1.7	543207	12752	1447880	12.8	
1	Allianz Holding	30	27480	1410	3	-4	4.1	55	0.9	31776	385a	98465a	7.4
2	Daimler-Benz	39	23497	504	14	7	2.1	15	2.5	62276	1123a	44953a	14.6
3	Siemens	41	23135	435	16	8	2.2	16	2.9	43928	1112	41793	13.7
4	Deutsche Bank	54	20157	439	12	5	1.9	NA	3.3	NA	910	294671	NA
5	Bayer	111	11860	184	8	1	1.2	11	6.9	27895	1200	24947	11.7
6	VEBA	118	11516	255	16	8	1.4	14	4.6	39148	726	31724	9.9
7	RWE	132	10832	257	5	3	2.6	16	4.2	27548	477	29476a	15.9
8	Münchener Rück.	140	10600	474	6	-2	6.8	NA	0.7	7884	50	21303	NA
9	Hoechst	142	9520	164	2	-5	1.3	10	7.1	31043	999a	22824a	13.7
10	BASF	149	8834	165	3	-4	1.0	12	7.5	30675	684	24651	8.2
11	Volkswagen	206	8234	255	12	4	1.0	11	4.2	50207	726	46118	8.7
12	Dresdner Bank	225	7918	215	-4	-10	1.3	NA	5.4	NA	603a	185515a	NA
13	BMW	272	6829	381	30	21	1.8	11	3.2	19631	515	16711	16.2
14	Mannesmann	318	5996	188	16	8	1.8	14	4.6	15855	317a	12110a	13.2
15	Henkel	360	5439	387	10	2	2.7	18	2.5	8492	260a	6117a	14.5
16	Bayerische Vereinsbank	402	4925	257	13	5	1.5	NA	4.9	NA	197	148882	NA
17	Bayerische Hypotheken	426	4711	245	15	7	1.4	NA	5.2	NA	228	126447	NA
18	Thyssen	430	4706	167	18	10	1.7	11	6.5	21999	288	14332	15.1
19	Mercedes-Automobil-Holding	447	4552	387	7	-0	2.8	NA	3.0	NA	89a	1750a	NA
20	VIAG	448	4462	251	15	7	1.9	14	3.5	15724	195a	10153a	13.3
21	Commerzbank	473	4161	161	4	-3	1.0	NA	6.0	NA	297	148750	NA
22	Hochtief	491	4034	807	-8	-15	4.6	NA	4.4	4009a	55a	2573a	NA
23	Preussag	515	3834	260	24	15	2.3	13	3.7	15322	300	8191	18.1

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	GLOBAL 1000 RANK	MARKET VALUE U \$ \$ MIL	PRICE PER SHARE U \$ \$	% CHANGE FROM 1991 (U \$ \$) (LOCAL)		PRICE BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U \$ \$ MIL	PROFITS U \$ \$ MIL	ASSETS U \$ \$ MIL	RETURN ON EQUITY	INDUSTRY CODE
Linde	542	3679	539	10	2	2.3	20	2.7	4547	142a	3862a	11.3	38
MAN	557	3597	250	10	3	2.0	13	4.7	10509	211	10039	15.8	38
Schering	595	3396	497	4	-3	2.2	18	2.5	4184	180	4478	12.1	45
Karstadt	617	3274	390	10	2	2.4	30	3.0	9890a	150a	4025a	7.9	54
Aachener & Münchener Bet.	700	2810	603	22	14	1.6	31	2.0	NA	45a*	1917a	5.2	63
Vereinigte Elektrizitätswerke Westfalen	742	2669	134	10	2	2.2	21	4.7	4428	101a	6708a	10.4	12
Kaufhof	749	2655	312	0	-7	3.1	28	3.7	11862	65a	3882a	11.0	54
Isar-Amperwerke	795	2499	380	4	-3	6.7	76	2.0	1011	27	2123	8.9	12
Metallgesellschaft	807	2460	279	6	-13	1.9	44	3.5	12744	28	7954	4.3	71
Deutsche Lufthansa	810	2457	82	10	2	1.3	33	0.0	9505a	10a	9706a	4.0	56
AEG	827	2411	130	18	10	2.5	NA	1.9	9243	-171a	6087a	NA	34
Victoria Holding	834	2376	864	3	-5	3.6	NA	1.1	2879a	44a	16949a	NA	63
Rheinelektra	907	2153	769	-20	-25	20.4	51	1.6	377	27	406a	40.2	38
Beiersdorf	936	2094	499	13	5	3.3	22	2.5	2953	77a	1895a	14.8	45
Philipp Holzmann	949	2060	733	-18	-24	3.6	NA	1.5	5197a	1a	3949a	NA	32
SAP	990	1954	1057	33	23	4.4	24	1.7	465	81	439	17.9	52

HONG KONG													
ENTRY COMPOSITE		117759	3	65	65	3.0	18	3.2	18369	5838	266027	17.5	
Hong Kong Telecommunications	100	14042	1	43	43	10.1	19	3.9	2087	650	2207	52.8	55
HSBC Holdings	150	10052	6	81	82	1.4	14	3.9	NA	728	160457	10.1	61
Hong Seng Bank	191	8730	6	110	111	4.2	24	2.7	NA	361	31603	17.5	61
Sun Hung Kai Properties	218	7864	4	82	82	2.2	12	3.0	1127	442	5182	18.6	64
Hutchison-Whampoa	221	7795	3	30	30	2.2	18	3.4	2467	428	7662	12.0	71
Cheung Kong Holdings	232	7577	3	53	53	2.6	12	2.5	1283	628	3866	21.5	64
Swire Pacific	239	7483	5	96	96	1.7	19	2.4	4317	396	10126	8.8	71
China Light & Power	242	7390	4	66	66	5.0	18	2.8	1532	368	2681	28.0	12
Jardine Matheson Holdings	377	5170	8	87	88	3.1	19	2.1	924	35	7255	16.5	71
Wharf (Holdings)	404	4877	2	99	99	1.3	31	3.1	306b	156b	5114	4.1	52
Hongkong Electric Holdings	415	4800	2	56	56	4.2	16	3.8	625	301	2199	26.5	12
Cathay Pacific Airways	420	4772	2	52	52	3.7	13	3.3	2690	379	4070a	29.6	56
Hongkong Land Holdings	437	4580	2	61	61	1.1	15	5.3	NA	38	5722	7.0	64
Henderson Land Development	500	3957	2	81	81	2.7	17	2.2	NA	258	2	16.2	64
New World Development	608	3311	2	76	76	1.1	15	3.0	NA	150	5002	7.3	64
Jardine Strategic Holdings	609	3306	3	53	53	1.6	15	3.0	NA	29	4450	10.8	71
Hopewell Holdings	690	2825	1	57	57	1.2	20	5.0	NA	93	1985	5.6	64
Dairy Farm International Holdings	731	2703	2	14	14	5.6	19	2.8	593	19	1676a	30.4	54
Hongkong & China Gas	857	2313	2	53	54	6.6	23	2.4	341	100	635	28.7	12
World International Holdings	875	2248	1	72	72	1.1	19	2.5	NA	119	2362	5.9	71
Cavendish International	987	1965	1	46	46	1.3	12	4.0	76	160	1770	10.4	71

LAND													
COUNTRY COMPOSITE		4008	6	-10	-3	1.5	11	2.7	1697	373	NA	13.5	
Imurfit Group	945	2063	10	-10	-4	1.7	11	0.8	1697	202	NA	15.2	23
Allied Irish Banks	995	1945	3	-9	-3	1.3	11	4.6	NA	171	NA	11.8	61

LY													
ENTRY COMPOSITE		81271	8	-4	-9	2.2	21	2.9	118248	5957	710914	9.5	
Assicurazioni Generali	65	17748	24	-3	-8	3.4	37	0.6	10587a	414a	37203a	9.1	63
Itat Group	177	9350	4	-5	-10	0.9	12	4.3	50176	1428a	65910a	7.7	42
ITET	246	7340	2	-9	-13	0.9	9	5.0	17322a	831a	49571a	9.4	55
IP	306	6292	1	15	9	0.6	17	5.0	16879	422	42328a	3.7	55
Istituto Bancario San Paolo di Torino	330	5856	9	NA	NA	NA	13	NA	NA	469	135792	NA	61
Alleanza Assicurazioni	350	5557	11	22	15	11.5	43	0.9	466a*	137*	7340a	26.4	63
Mediobanca	510	3858	11	-14	-18	2.4	25	1.5	NA	137*	14513	9.5	61
Montedison	620	3265	1	2	-3	0.8	26	3.4	12789a	482a	22236a	3.3	71
IAS	697	2814	15	-7	-12	2.0	26	1.6	3764a	135a	12555a	8.0	63
Banca Commerciale Italiana	746	2662	3	31	-35	0.6	9	6.3	NA	314	101605	6.7	61
Credito Italiano	871	2261	1	-30	-34	0.8	10	4.8	NA	258	80614a	8.4	61
Imetton Group	900	2169	12	58	49	3.9	16	2.1	1986	143	1932	24.7	47
la Fondiaria	909	2148	26	-24	-28	2.2	25	1.9	2182a	89a	7991a	8.7	63
Montedison	918	2124	3	34	26	1.5	21	1.8	422a	80a	2587a	7.1	11
Banco di Roma	978	1992	2	-27	-31	0.9	17	2.5	NA	125	66447a	5.4	61
Banco Ambrosiano Veneto	988	1957	3	-19	-24	1.3	11	3.7	NA	202	26611a	11.8	61
Al	998	1940	14	-12	-17	2.7	37	1.0	1675a	75a	4878a	7.3	63
erruzzi Finanziaria	999	1938	1	-19	-23	0.8	16	2.5	NA	215a	30793a	4.8	71

AN													
TRY COMPOSITE		1675544	13	-18	-24	2.5	49	1.0	2413592	52168	7687013	7.3	
Nippon Telegraph & Telephone	2	77524	4970	-25	-30	2.4	52	0.8	44489	1679	81022	4.6	55
Toyota Motor	11	43974	12	0	-8	1.2	13	1.3	71569	3130	65272	9.4	42
Mitsubishi Bank	14	39839	14	-31	-37	3.0	142	0.5	NA	726	380595	2.1	61
Fujitsu Bank	16	37118	12	-34	-39	2.2	33	0.6	NA	1032	446695	6.7	61
Mai-ichi Kangyo Bank	19	34676	11	-40	-44	2.3	53	0.6	NA	655	428286	4.3	61
Industrial Bank of Japan	20	34044	14	-47	-51	3.2	74	0.5	NA	470	290144	4.4	61
Mizuho Bank	21	33990	12	-42	-46	2.3	47	0.6	NA	719	399651	4.9	61

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COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$)	PRICE BOOK VALUE RATIO	P-E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %	
8	Sanwa Bank	23	30407	10	39	44	2.1	36	0.6	NA	804	436967	5.8
9	Tokyo Electric Power	25	29247	22	-22	28	2.7	52	1.8	31168*	420*	78901	5.2
10	Sakura Bank	26	29046	9	-40	45	2.3	46	0.8	NA	612	408866	4.9
11	Matsushita Electric Industrial	41	22625	11	-11	-18	0.8	22	0.9	5899b	998b	62343	3.9
12	Nomura Securities	43	22102	11	28	-34	1.8	32	1.0	NA	675	43756	4.6
13	Hitachi Ltd.	51	20640	6	-26	-31	0.9	21	1.4	55056	1637	60670	4.5
14	Kansai Electric Power	60	18502	10	10	-17	2.3	33	2.0	15475*	398*	41301	7.1
15	Bank of Tokyo	68	17621	9	16	-22	2.3	55	0.8	NA	349	223248	4.2
16	Nippon Steel	77	16338	2	-30	-35	2.0	23	2.0	22835	648	31374	8.7
17	Seven-Eleven Japan	78	16227	57	13	4	1.8	54	0.4	7034*	251*	2075	19.8
18	Toshiba	79	15996	5	-12	-19	1.7	52	1.6	33409	861	39351	3.3
19	Mitsubishi Heavy Industries	8	15888	5	-14	1	2.1	14	1.4	18252	690	25788	11.3
20	Chubu Electric Power	92	14670	20	-7	-14	2.2	30	2.0	13015*	221*	32847	7.1
21	Long-Term Credit Bank of Japan	93	14607	6	51	-55	1.8	30	1.0	NA	265	214951	6.0
22	Tokai Bank	94	14590	7	44	-48	1.8	37	0.9	NA	312	249819	4.8
23	Ito-Yokado	97	14310	4	5	5	3.5	25	0.7	1381*	522	7714	14.1
24	Kyowa Saitama Bank	101	13146	4	-40	-44	1.8	44	1.0	NA	243	115671	4.0
25	Sony	104	12911	34	-18	-25	1.0	10	1.0	28679b	901b	32747	7.8
26	Mitsubishi Corp.	105	12485	8	-12	-19	2.3	30	0.8	140376	465	84893	7.5
27	Nissan Motor	106	12424	5	-9	1	0.9	33	2.2	42446	149	45933	2.7
28	Tokio Marine & Fire	107	12334	4	-18	24	3.0	50	0.8	1149*	207*	10434	6.0
29	Nintendo	112	11751	83	-19	-25	6.0	17	0.6	4219b	646b	3026	34.8
30	All Nippon Airways	113	11742	8	-19	-25	7.7	30	0.5	5714	82	8602	5.9
31	NEC	116	11612	8	-31	-36	1.7	97	1.0	26322	387	27966	1.7
32	Honda Motor	117	11571	12	22	13	1.4	23	0.9	30613	543	21013	6.0
33	Fuji Photo Film	120	11473	22	1	7	1.6	15	0.5	8509	722	12114a	10.4
34	Daiwa Bank	121	11460	7	-24	-29	1.1	37	0.8	NA	264	21064	3.7
35	Japan Air Lines	142	10539	6	-26	1	3.2	96	0.7	9628	100	12992	3.3
36	Sharp	147	10415	1	-16	-22	1.8	34	0.9	10645	334	14780	5.4
37	Tokyo Gas	149	10072	4	-21	1	3.4	74	1.1	5543	114	7356	4.6
38	Kirin Brewery	151	9974	10	-1	-19	2.4	30	0.7	1234*	345	9466a	8.1
39	Asahi Glass	152	9974	7	-15	1	2.3	34	0.8	9990	302	9684a	6.7
40	Mitsubishi Trust & Banking	153	9896	5	-46	-50	1.1	30	0.9	NA	293	13119b	4.2
41	Tohoku Electric Power	154	9712	20	-6	-13	2.5	35	2.0	8240*	256*	17356	7.0
42	Nipponenso	155	9690	12	-6	-13	1.8	20	0.9	11847*	487	10277a	8.9
43	Osaka Gas	169	9500	4	1	1	3.4	59	1.0	4526	147	6998	5.7
44	Mitsubishi Estate	173	9470	7	-29	-34	2.9	27	0.9	3344	313	13257	7.0
45	Fujitsu	174	9400	5	-37	-42	1.0	46	1.5	21141	588	26592	1.1
46	Daiwa Securities	176	9299	7	-30	-35	1.1	19	1.0	NA	434	4683	5.7
47	Nippon Credit Bank	180	9235	53	1	-36	2.3	54	0.9	NA	157	128357	4.2
48	Sumitomo Trust & Banking	185	9050	7	-42	-46	1.4	36	0.9	NA	326	12990	3.9
49	Kinki Nippon Railway	186	8853	6	-1	-13	5.3	54	0.7	6141	150	8404	9.8
50	Bank of Yokohama	187	8532	4	-4	-24	2.2	110	0.5	NA	77*	98427	2.0
51	Dai Nippon Printing	188	8442	4	-1	-11	1.8	25	0.7	8326	308	8368	7.1
52	Canon	189	8343	1	2	-6	1.6	20	0.9	13573	170	14597	7.8
53	Mitsubishi Electric	205	8243	4	3	-35	1.3	29	2.0	23596	568	21611	4.6
54	Mitsui Trust & Banking	206	8100	7	-40	-45	1.1	42	1.0	NA	241	102491	1.6
55	Fanuc	214	7847	33	1	-22	2.5	27	0.4	NA	269	3298	9.4
56	Sankyo	215	7843	10	13	1	4.1	46	0.4	3224	154	3216	10.1
57	Seibu Railway	216	7749	18	-3	-34	19.4	495	0.2	3515	15	6172	3.9
58	Kyushu Electric Power	219	7863	17	-2	-24	2.0	31	2.3	NA	236*	22479	6.3
59	NKK	220	7859	2	17	-32	2.0	14	1.8	NA	211	22828	5.8
60	Kajima	221	7749	5	10	-34	1.1	22	1.3	13492	107	18822	13.7
61	Asahi Chemical Industry	228	7599	1	1	-14	2.2	32	1.3	9258	304	9159	7.0
62	Takeda Chemical Industries	230	7566	5	16	1	1.9	22	1.1	4917	317	4561	8.6
63	Kawasaki Steel	231	7583	2	1	-32	1.6	22	2.0	9350	310	14744	7.2
64	Nikko Securities	241	7421	4	-33	-38	1.0	22	1.1	NA	313	32392	4.8
65	Yasuda Trust & Banking	242	7398	7	46	-52	1.7	36	1.1	NA	155	94478	4.9
66	Kobe Steel	243	7389	3	1	38	2.3	36	1.8	10354	88	16459	6.4
67	Mitsui & Co.	244	7384	5	1	-14	1.5	35	1.1	4714*	292	17795	4.3
68	Sumitomo Corp.	245	7364	7	1	-22	1.4	25	0.9	4714*	274a	42532	6.4
69	Bridgestone	254	7128	4	20	1	2.1	21	1.2	4714*	60	12868a	1.7
70	Shizuoka Bank	256	7107	9	1	1	2.5	39	0.5	NA	41*	54743	6.4
71	Sumitomo Metal Industries	257	7064	2	1	1	1.1	17	2.0	12415	385	18032	9.6
72	Sanyo Electric	258	7038	4	1	-22	1.1	17	1.1	12225	129	14989a	2.3
73	Nippon Oil	264	6954	6	-26	1	1.6	36	0.8	20878	75	18978	4.5
74	Toray Industries	265	6923	5	4	-4	2.1	32	1.1	7335b	208b	8182	6.4
75	Daiwa House Industry	275	6812	4	-1	4	3.1	19	0.9	5757	320	7483	11.9
76	Shimizu	282	6602	8	-20	-26	1.1	17	1.1	4714*	344	14270	16.0
77	Ajinomoto	284	6596	10	-10	1	2.4	19	0.8	4227	87	5205	3.0
78	Yamanouchi Pharmaceutical	287	6585	20	4	-4	2.4	26	0.5	2185	233	4492	11.3
79	Mitsui Real Estate Sales	290	6547	8	-22	-28	1.5	20	0.9	8945	295	24500	7.3
80	Kyocera	293	6477	10	-25	1	1.7	31	1.1	3408b	203b	4795	5.5
81	Matsushita Electric Works	305	6302	5	-19	1	2.0	23	1.1	8288	106	7544a	8.6
82	Tonen	308	6274	10	-21	1	2.1	40	2.0	5952a	41a	4282a	5.2
83	Ono Pharmaceutical	310	6253	51	73	1	7.9	58	0.2	532*	95*	1885	10.7
84	Sekisui House	311	6249	10	-8	1	1.5	17	1.4	2782	381b	9646	9.3

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	GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$) (LOCAL)		PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %	INDUSTRY CODE
Chugoku Electric Power	316	6064	17	12	-19	2.1	35	2.3	6390*	154*	15200	5.9	12
Kubota	322	5953	4	23	29	2.4	180	1.1	6355	51	7643	1.3	38
Sumitomo Chemical	327	5914	4	-4	-11	3.3	38	1.3	8725	161	8673a	8.9	22
Toppan Printing	336	5824	9	-16	-22	1.6	22	0.9	7557	245	7244	7.6	52
Taisei	338	5790	6	-20	-26	2.2	22	1.7	13293	234	18992	9.9	32
Nippon Express	339	5787	5	-17	-23	4.2	29	0.9	10830	129	6897	14.7	57
Sumitomo Electric Industries	345	5649	8	-25	-31	2.1	23	1.0	7927	225	7441	9.5	37
Yamaichi Securities	348	5570	5	-39	44	0.9	18	1.3	NA	285	38910	4.9	62
Toyo Trust & Banking	351	5554	7	-47	-51	1.5	33	0.9	NA	154	68704	4.7	62
Mitsubishi Kasei	356	5489	4	-17	-23	2.3	49	1.3	8995	101	11144	4.7	22
Tokyo Corp.	370	5215	5	53	-56	2.6	63	0.8	2989	75	8901	4.1	57
Chiba Bank	371	5205	7	-24	-30	1.9	35	0.6	NA	120*	62663	5.3	61
Pioneer Electronic	375	5186	29	0	-7	2.1	23	0.7	4270	244	3474	9.2	41
Toyo Seikan Kaisha	380	5131	25	-6	-13	2.3	18	0.3	5387	262	4151	13.1	26
Secom	382	5120	48	11	2	4.3	57	0.6	1338	81	2097	7.5	52
Kao	386	5054	8	-0	-8	2.3	32	0.9	5480b	150b	4521	7.2	44
Komatsu	389	5005	5	-22	-28	1.2	59	1.3	7038	223	9387	2.1	38
Marubeni	395	4977	3	-30	-35	1.3	56	1.5	139223	243	67203	2.3	59
Toyo Sash	403	4923	23	-5	-12	2.4	27	0.4	3437	167	4259	9.0	21
C. Itoh	405	4875	3	-32	-37	1.2	51	1.4	151598	224	58543	2.3	59
Hachijuni Bank	416	4791	8	-5	-12	2.9	40	0.5	NA	98*	39593	7.2	61
Ishikawajima-Harima Heavy Industries	418	4776	4	-31	-36	3.9	31	1.1	6881	141	9507	12.5	38
Shikoku Electric Power	421	4771	17	-12	-19	2.1	26	2.3	3095*	167*	8183	8.2	12
KDD	423	4743	74	-18	-25	2.1	40	0.5	1715	95	3407	5.2	55
Taisho Pharmaceutical	436	4587	15	-9	-16	2.9	26	1.1	1231*	159*	2018	11.2	45
Nippon Yusen	440	4566	4	-13	-20	2.5	92	0.8	5992	45	9051	2.8	58
Joyo Bank	442	4542	6	-24	-30	2.0	33	0.7	NA	122*	51619	6.0	61
Toto	443	4518	13	3	-5	3.1	32	0.6	2832	120	2587	9.6	21
Kawasaki Heavy Industries	445	4482	3	-25	-31	5.3	37	1.2	7265	110	7924	14.4	38
Hitachi Zosen	447	4470	4	-12	-18	7.6	62	0.0	2533	66	3515	12.3	38
Hanwa	450	4442	12	-37	-41	1.5	26	0.9	5536	157	21782	5.8	59
FDK	453	4415	34	-17	-24	1.5	26	1.2	4017b	162b	4606	5.8	35
Yasuda Fire & Marine	454	4412	5	-28	-34	2.6	39	1.1	5159*	114*	24963	6.6	63
Hokuriku Bank	456	4376	6	-27	-32	1.8	37	0.6	NA	106	58699	4.8	61
Mitsubishi Motors	464	4277	5	-13	-19	1.5	19	1.1	19910	184	14516	8.3	42
Shiseido	465	4267	11	-3	-10	1.9	34	0.8	3679	113	4257	5.7	45
Odakyu Electric Railway	472	4166	6	-18	-24	4.0	86	0.7	2804	44	5274	4.7	57
Oji Paper	474	4142	7	7	-1	2.2	63	1.0	4768	122	6127	3.5	23
Tobu Railway	487	4063	5	-22	-28	3.5	103	0.8	1985	36	5984	3.4	57
Bank of Fukuoka	490	4036	7	-17	-23	2.3	31	0.6	NA	103*	47200	7.3	61
Ishin-Etsu Chemical	494	4005	12	4	-4	2.3	19	0.5	3323	189	4182	11.8	22
Mitsubishi Materials	495	3994	4	-34	-39	1.7	11	1.6	6767	324	9591	15.7	24
Hankyu Corp.	498	3966	5	-4	-12	3.1	45	0.8	2277	79	6274	6.8	57
Ashikaga Bank	501	3952	6	-26	-32	2.0	31	0.7	NA	107*	46026	6.4	61
Mitsui Marine & Fire	502	3950	5	-26	-31	2.5	45	1.0	3465*	102*	16971	5.6	63
Summa Bank	505	3936	8	-7	-14	2.5	31	0.5	NA	95*	36754	8.0	61
Iusco	507	3888	13	7	-1	2.4	32	1.2	11200	117	6829	7.6	54
Marui	519	3822	10	-33	-38	1.4	16	1.7	4796b	243b	5971	8.6	54
Sumitomo Marine & Fire	520	3813	6	-19	-25	2.3	34	1.0	2996*	101*	15342	6.7	63
Asahi Breweries	522	3788	9	-12	-18	1.7	100	0.7	7308	39	13435a	1.7	43
Setan	525	3772	17	-19	-26	3.3	48	0.5	3914	71	3297	6.8	54
Mazda Motor	530	3747	3	-20	-26	1.2	51	1.7	19284	190	10973	2.3	42
Hokuriku Electric Power	535	3719	17	-13	-20	1.8	27	2.3	2804*	129*	8254	6.7	12
Hokkaido Takushoku Bank	537	3716	4	-44	-48	1.3	23	1.4	NA	145	77400	5.6	61
Aurata Mfg.	538	3715	18	-6	-13	1.6	17	0.7	1971	174	3172	9.1	35
Iyowa Hikko	556	3598	8	-11	-18	3.1	50	0.7	2649	74	3231	6.3	45
Okoyo Steel Mfg.	560	3587	24	-11	-18	2.9	15	0.8	1658*	251*	2082	19.6	25
Ishibayashi	565	3557	5	-41	-46	1.8	16	1.8	9599	197	14438	11.0	32
Hokkaido Electric Power	573	3513	16	-14	-20	2.0	42	2.4	3409*	97*	9628	4.7	12
Mitsui O. S. K. Lines	578	3473	3	-26	-32	3.1	84	1.0	4220	38	6358	3.7	58
Iijin	580	3467	4	-16	-23	1.5	22	1.3	4362	186	6721	6.8	22
Ibara	582	3455	12	3	-5	4.1	77	0.6	2547	41	2454	5.2	38
Iekisui Chemical	587	3434	6	27	-33	1.3	13	1.4	5757	233	7180	10.1	21
Iyushu Matsushita Electric	590	3418	20	-14	-20	3.5	36	0.4	2142*	78*	1594	9.7	41
Iagoya Railroad	596	3395	4	19	-25	3.0	50	0.8	2441	61	8553	6.0	57
ony Music Entertainment	600	3372	38	NA	NA	5.5	40	0.2	996	71	708	13.7	46
Iippon Mining	606	3316	4	-18	-25	2.5	80	1.1	8582	38	7944	3.1	11
Iowa Shell Sekiyu	613	3283	10	-1	-9	3.7	16	0.6	13287	212	6625a	23.4	11
Iuji Electric	615	3279	5	-31	-36	2.5	25	1.4	5963	158	6253	10.1	34
Iamazaki Baking	616	3275	15	16	7	2.9	30	0.6	4338	111	2086a	9.6	44
Iitsukoshi	622	3245	7	-27	-32	3.5	LOSS	0.7	8294	43	4282	NEG	54
Iaiichi Pharmaceutical	624	3235	12	-22	-28	2.3	18	0.8	1530	163	2503	12.7	45
Iitsubishi Petrochemical	628	3219	7	-4	-11	2.0	16	1.0	3978	186	5138	12.9	22
Iaishowa Paper	629	3219	15	-39	-44	4.4	708	0.4	2839	4	6219	0.6	23
Iosmo Oil	635	3171	6	-7	-14	4.0	26	0.8	12851	109	9157	15.2	11
Iyoda Automatic Loom Works	640	3156	11	-45	-49	1.8	22	0.9	4156*	131*	2728	8.3	38
Iatsushita Communication Industrial	646	3112	17	-33	-38	2.1	29	0.5	3629	99	2413	7.5	34

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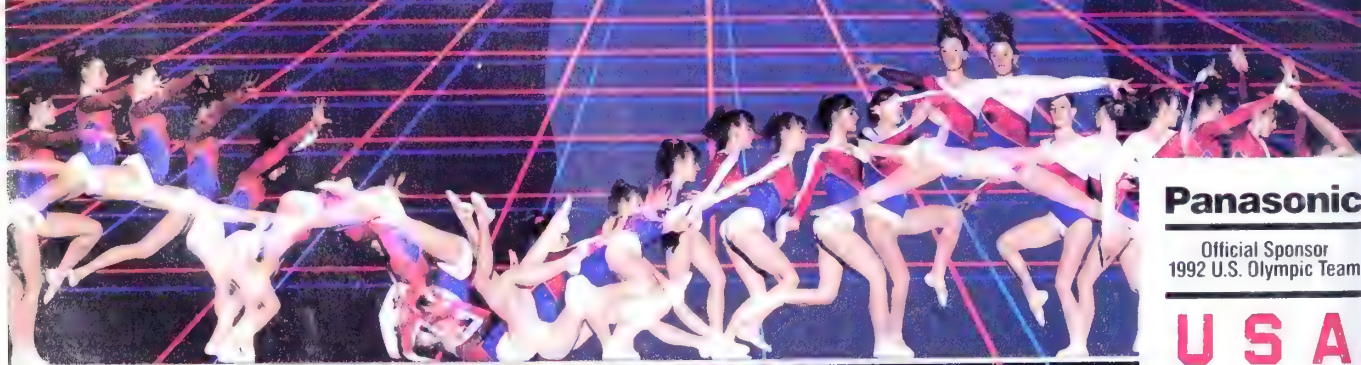
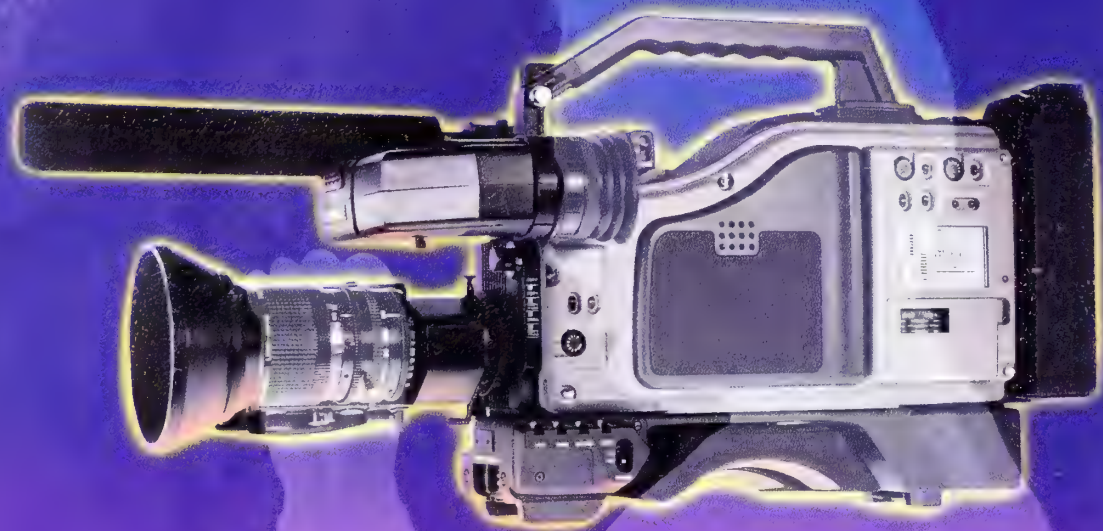
COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$)	PRICE/BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %	INDUSTRY
162	Bank of Hiroshima	653	3068	5	-26 -31	1.9	27	0.8	NA	87*	44951	6.9	6
163	Sumitomo Metal Mining	654	3065	6	-35 -40	2.2	28	0.9	4070	99	4413	8.0	2
164	Kumagai Gumi	655	3046	4	-25 -31	1.1	35	1.6	9784	80	15819	3.2	3
165	Dainippon Ink & Chemicals	656	3043	4	-3 -11	2.0	75	1.2	6582	37	6828	2.7	2
166	Kinden	662	2993	17	-10 -16	2.2	24	0.4	3060*	102*	3103	9.2	3
167	Nisshin Steel	664	2983	3	-47 -51	1.4	15	1.9	3394	183	5071	9.7	2
168	Mochida Pharmaceutical	666	2963	30	67 55	9.3	156	0.2	353*	14*	457	6.0	3
169	Nippon Meat Packers	671	2933	14	18 9	2.3	32	0.7	5216	83	3290	7.2	4
170	Daiei	672	2925	7	-27 -32	2.6	37	1.8	19342b	78b	9291	7.0	5
171	Kuraray	680	2879	9	-8 -15	2.8	32	0.7	2412	79	2829	8.6	6
172	NGK Insulators	691	2824	8	-6 -13	2.3	32	0.8	1658	81	2052	7.4	7
173	Nichii	704	2795	10	-13 -19	1.6	35	1.5	8989	77	5680a	4.7	8
174	Nissho Iwai	705	2791	4	-19 -25	1.6	26	1.1	97289	83	38967	6.0	9
175	Eisai	710	2777	11	-11 -17	2.1	23	0.9	1509	102	2094	8.7	10
176	Nippon Light Metal	712	2775	5	-24 -30	2.5	7	0.7	4533	358	4859	35.1	11
177	Mitsui Engineering & Shipbuilding	715	2764	3	-26 -31	4.0	117	0.9	2505	21	3638	3.4	12
178	Keio Teito Electric Rail	721	2737	5	-35 -40	3.2	52	0.9	2882	48	4035	6.1	13
179	Nippon Fire & Marine	724	2727	5	-25 -30	1.9	32	1.2	2562*	78*	13122	5.9	14
180	Ricoh	732	2697	4	-25 -31	0.9	169	1.9	7137	97	8532	0.6	15
181	Fujita Corp.	738	2685	5	-35 -40	1.8	21	1.4	5486	115	9450	8.5	16
182	Fujisawa Pharmaceutical	745	2663	8	-37 -42	1.6	56	0.7	1957	43	3429	2.8	17
183	Chiyoda Corp.	759	2628	13	-30 -35	3.6	106	0.3	1324	11	2493	3.4	18
184	Casio Computer	762	2618	10	-1 -9	2.2	32	1.0	2384	65	2703	6.9	19
185	Kandenko	763	2612	19	0 -7	3.2	28	0.3	3423*	77*	2667	11.2	20
186	Sapporo Breweries	769	2587	8	-16 -23	2.6	99	0.5	4458	27	4615a	2.6	21
187	Amada	770	2586	9	11 3	1.4	17	1.8	1459	137	2826	8.1	22
188	Showa Denko	772	2583	2	-34 -39	2.5	188	0.0	5115	14	5795a	1.3	23
189	Ube Industries	775	2570	3	-28 -33	3.8	38	1.3	4846	61	6501	10.1	24
190	NSK	792	2511	5	-21 -27	1.3	21	1.4	3138	109	4664	6.4	25
191	Hyogo Bank	798	2484	7	-27 -32	1.9	36	0.5	NA	52*	30727	5.2	26
192	Kokuyo	801	2475	19	-24 -30	2.5	23	0.6	2227	97	2007	11.0	27
193	Isuzu Motors	812	2444	2	-36 -41	1.9	LOSS	0.0	11601	-472	8825a	NEG	28
194	Omron	814	2440	11	-33 -38	1.3	17	1.0	3302	153	4040	7.5	29
195	Keihin Electric Express Railway	822	2432	5	31 -36	3.3	63	0.8	1651	35	4075	5.2	30
196	Makita	823	2428	15	0 -8	1.8	19	0.9	1188	95	1707	9.6	31
197	Suzuki Motor	826	2423	6	12 4	1.5	19	1.0	8610	113	5240	7.7	32
198	Mitsui Toatsu Chemicals	840	2361	3	-21 -27	1.9	19	1.6	3757	111	5639	9.8	33
199	Furukawa Electric	844	2352	4	-39 -44	1.6	36	1.3	5679	49	5466	4.5	34
200	Mitsubishi Oil	852	2330	7	-19 -25	3.3	24	0.7	7913	88	5861	13.7	35
201	Nissin Food Products	853	2328	18	-12 -19	1.8	30	1.1	1373	71	1994	6.1	36
202	Nissan Fire & Marine	855	2317	11	-59 -62	7.4	81	0.4	1672*	26*	5689	9.1	37
203	Matsushita-Kotobuki Electric	862	2290	14	2 -6	1.9	27	0.7	1950*	73*	1662	7.0	38
204	Tokyo Dome	863	2288	14	-34 -39	3.5	105	0.7	820	21	3767	3.3	39
205	Nichido Fire & Marine	866	2274	5	-21 -27	2.0	32	1.0	2320*	65*	11727	6.2	40
206	Toyobo	868	2271	3	-20 -26	2.8	41	1.2	3900	50	4055	6.8	41
207	Tosoh	873	2252	4	-13 -19	3.0	130	1.0	2612	15	4193	2.3	42
208	Seventy-Seven Bank	876	2243	6	-15 -21	2.0	27	0.7	NA	66*	28172	7.5	43
209	Dai-Tokyo Fire & Marine	877	2240	6	-27 -32	1.7	33	1.0	2547*	62*	9813	5.2	44
210	Banyu Pharmaceutical	883	2231	8	-9 -16	1.9	43	0.7	712*	48*	1383	4.3	45
211	Daikin Industries	884	2230	8	-33 -38	2.3	17	1.1	2989	117	2651	13.4	46
212	Sumitomo Heavy Industries	885	2225	4	-31 -36	3.8	47	0.8	3309	43	4529	8.1	47
213	Nippon Hodo	887	2217	19	-7 -14	2.5	40	0.4	2021*	44*	1817	6.2	48
214	Maeda Road Construction	891	2200	22	12 3	3.9	38	0.5	1153*	47*	824	10.2	49
215	Sumitomo Realty & Development	892	2197	5	-33 -38	1.1	15	1.3	2142	131	11920	7.4	50
216	Penta-Ocean Construction	893	2193	7	4 -3	6.6	73	0.8	3124*	27*	3132	9.0	51
217	Yamato Transport	895	2188	8	-19 -25	2.2	44	1.1	3366	45	2415	5.0	52
218	Sato Kogyo	899	2169	8	-18 -24	4.5	46	0.8	3835	43	5129	9.8	53
219	Nishi-Nippon Bank	901	2167	6	-25 -30	1.8	32	0.7	NA	56*	27574	5.6	54
220	Tokyo Electron	902	2162	14	-46 -50	2.0	50	0.8	769	39	1634	4.1	55
221	Olympus Optical	908	2150	9	8 -0	1.9	37	1.1	1765	52	2349	5.2	56
222	Chugai Pharmaceutical	911	2141	9	1 -7	2.6	128	0.7	1121	17	1430a	2.0	57
223	Hitachi Metals	912	2135	6	-35 -40	1.7	18	1.4	3423	105	3396	9.0	58
224	Chugoku Bank	913	2135	10	-19 -25	1.4	21	0.4	NA	84*	31118	6.7	59
225	Jujo Paper	916	2127	4	-14 -21	1.7	32	1.3	4056	60	4990	5.3	60
226	Seino Transportation	920	2121	14	-18 -24	1.5	21	0.6	2222	93	2134	7.1	61
227	Seiyu	921	2119	9	-25 -30	2.6	23	1.3	10522b	92b	10715	11.5	62
228	Shionogi	924	2116	6	-26 -32	1.5	29	1.0	2149	67	2533	5.3	63
229	Meiji Milk Products	926	2116	7	28 19	4.6	69	0.7	3138	26	1565	6.7	64
230	Japan Radio	934	2097	15	-16 -22	3.6	36	0.4	1473	52	1706	10.1	65
231	Takashimaya	937	2092	9	-39 -44	2.1	11	0.8	9653	180	5469	18.6	66
232	Matsuzakaya	943	2066	13	-47 -51	3.2	16	0.5	4174	122	2070	19.8	67
233	Meiji Seika	944	2066	5	4 -4	2.4	51	1.0	2334	37	1670	4.8	68
234	Oki Electric Industry	948	2060	3	-35 -40	1.4	LOSS	1.6	4704	70	5526	NEG	69
235	Hasegawa Komuten	950	2059	5	-29 -35	0.9	18	1.8	3956	104	9573	5.0	70
236	Mitsubishi Gas Chemical	952	2048	4	-9 -16	1.8	37	1.0	2242	50	3079	4.9	71
237	Citizen Watch	953	2045	7	-11 -18	2.0	15	0.9	2910	122	2737	13.0	72

SPECIAL ADVERTISING SECTION

A Global Partnership



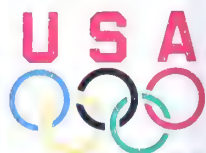
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Of all the triumphs of the Olympic Games, there's one you won't read about, but you'll see it, you'll hear it and you'll feel it when you watch the Games. It's the D-3 1/2" Digital Video System from Panasonic.

Panasonic

MATSUSHITA ELECTRIC



First, there were Japanese exports. As the trade imbalance rose, local companies lost market share and cut jobs, arousing anti-Japanese sentiment.

Partly in response, Japanese manufacturers began opening factories. These created jobs and helped cut the trade imbalance. But tension still grew, as critics complained of "screwdriver factories" and lack of any real value-added activities such as R&D.

Now Japanese companies are expanding their R&D in North America, establishing R&D facilities, sponsoring university research and joining up with many of the most innovative local high-tech companies. Is this merely a scheme to buy brains and talent? Or a genuine effort to work together to create new technology?

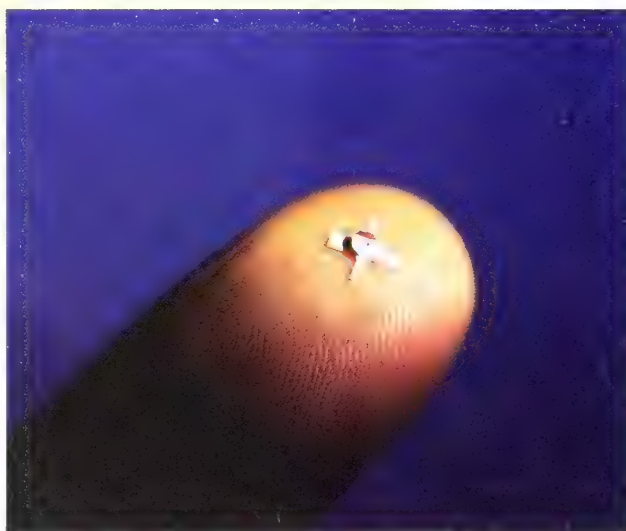
Why Internationalize R&D?

"Everywhere, business is rapidly internationalizing," says Fujitsu Executive Vice President and Representative Director Mikio Ohtsuki. "Telecommunications are moving toward a world standard. Computers are shifting from proprietary to open systems."

Japan's largest companies are finding that if they want to remain competitive it is not enough to build an international presence based on overseas marketing and manufacturing.

"Internationalization leads to the localization of R&D," explains Dr. Sei-Ichi Takayanagi, Toshiba's executive vice president for corporate technology.

In other words, Japanese com-



Fujitsu's HEMT (high-electron mobility transistor) device enables even small, internal antennae to pick up weak TV signals

panies have little choice but to diversify their R&D capability. To back up this argument, senior Japanese executives point to seven

closely linked arguments.

Technology Strengths

Japan's high-tech leaders know what the U.S. — and the Japanese — public too often forgets: that far from being a fallen technological giant, in key areas of tomorrow's technology — affecting everything from computers to peripherals to telecommunications and more — the U.S. has an edge.

To compete, Japanese companies must have an R&D presence in the U.S. Software is probably the best example of such a presence.

"Software is growing ever more important," notes Fujitsu's Ohtsuki. Japanese companies recognize that for all their strength in hardware manu-

facturing, the U.S. clearly leads in software — and that more and more software drives high-tech industry.

"In areas such as software the American market is the most advanced and sooner or later Japan — like the rest of the world — will

follow," observes NEC Senior Vice President Yasuo Kato.

Kato adds, "If NEC cannot survive in the U.S., we cannot survive

What's your view of the world?



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in the world: that is why we must have a complete operation there, from sales and marketing to manufacturing and R&D."

Limited Manpower "There is a limited supply of engineers, especially software engineers, in Japan," says Toshiba's Dr. Takayanagi. Competition for qualified engineers is often extremely keen.

The U.S. and Canada have good software engineers — and unlike Japan where fresh university graduates require two to three years on-the-job-training, most are ready to make an immediate contribution.

There are other important differences in human resources. "U.S. researchers are good, especially at formulating concepts," remarks Dr. Shiro Horiuchi, a director and board member at Matsushita Electric Industrial. "But they prefer to work individually, so their Japanese

Fujitsu's new telecommunications plant in Richardson, Texas



NEC researcher working on a parallel processing computer

counterparts have an edge in large, complex, closely coordinated projects."

As much as U.S. high-tech giants learned when they set up R&D centers in Japan, there is much more to be gained from recognizing and combining the strengths and aptitudes of researchers from different countries.

Cultural Synergy This leads to a closely related point. "At Fujitsu," comments Ohtsuki, "we want to nurture the autonomous growth of our operations worldwide. The challenge for management is to understand different cultures and environments."

Toshiba's Dr. Takayanagi agrees: "It is important to understand cultural and educational differences in each country and to use these differences constructively. The

cultural mix stimulates a valuable "cross-cultural effect."

Hitachi Executive Managing Director Dr. Yasutsugu Takeda emphasizes this synergy, reasoning that an international R&D program helps promote a synergistic reaction among disciplines and cultures.

Product Differentiation

Although the trend is toward global standards, there are also significant variations in the way products are used in different markets. The PBX (private branch exchange) is a different animal in the U.S., where secretaries are numerous compared to Japan, where they are few.

Similarly, the requirements for computer mammography equipment in the U.S. are not the same as those in Japan: women in the two countries usually differ significantly in size and physique. Thus, a key argument for overseas R&D is product differentiation.

"In the past," continues Dr. Takeda, "when we wanted to make a product suitable for foreign markets we sometimes made mistakes because of cultural differences."

"Before we can consider selling overseas a product developed for our domestic market, it must be customized to meet local standards," agrees Fujitsu's Ohtsuki.

An overseas R&D capability is seen as helping attune products to local needs. "That is why," empha-



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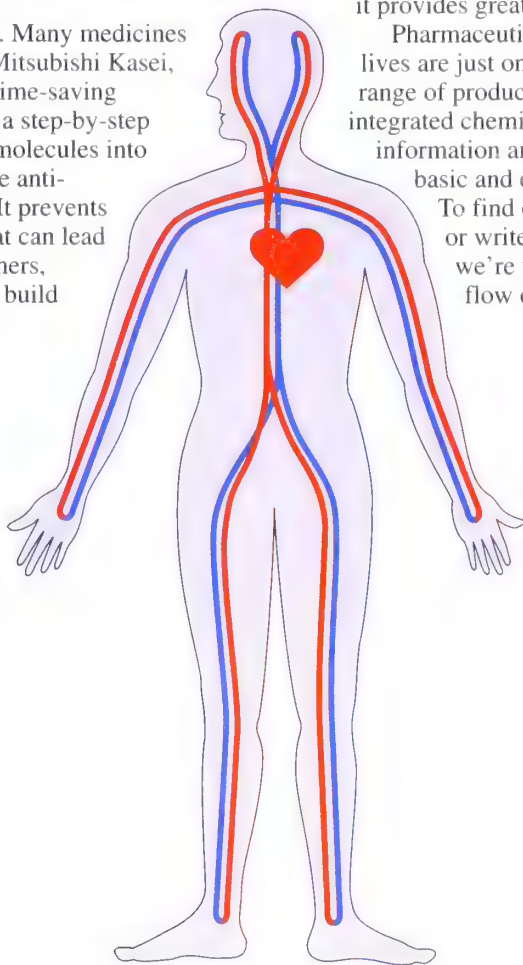
Having a good idea is one thing. Making it into something practical which people can use is the hard part. At Mitsubishi Kasei, turning research into reality is one of the things we do best.

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MITSUBISHI KASEI



sizes Dr. Takeda. "It is so important to link R&D with offshore manufacturing and marketing."

Response Time Product differentiation is a key strategic argument about management style. "It is imperative to shorten the time it takes to make a decision," emphasizes Fujitsu's Ohtsuki. "Overseas R&D," says Matsushita's Dr. Horiuchi, "allows us to respond quickly to customers and market changes."

Change and Resources "Historically, Japanese companies have tended to do everything themselves," suggests Matsushita's Dr. Horiuchi. "But as technology becomes more complex, they must cooperate with other companies."

"Technology is becoming so huge, so fast," agrees NEC's Kato. "no one company can deal with it. We have to collaborate."

"We like to be creative in technology," says Fujitsu's Ohtsuki. "But doing that alone now is difficult, especially when the aim is to provide customers total systems solutions. You have to have reliable partners, so that you can take advantage of each other's strengths and overseas bases."

Toshiba's Dr. Takayanagi adds: "It is difficult for one company to acquire knowledge and expertise in all fields. You have to focus — in our case on electronics and energy. We know that as we approach the 21st-



Research on high-temperature superconductors

century, our strategy is to cooperate with other companies with complementary technological strengths."

Social Responsibility U.S. complaints about "screwdriver assembly lines" have also had an effect on Japanese corporate thinking. "In order to be an adult citizen of the world economy, we believe our overseas operations should be complete," says NEC's Kato. "In the U.S. that means the enterprise should extend from sales to R&D."

Corporate R&D Strategies

Japan's export success reflects a dedication to quality and

first class manufacturing technology, far more than brilliant management or even superior productivity. Japanese companies are seldom homogeneous in organization or purpose. Organic in evolution, bureaucratic in structure, they usually operate offshore on multiple paths — paths which sometimes have only limited interaction.

Indeed, one company interviewed acknowledged it encourages its researchers in Japan and around the world

to publish their findings in scholarly journals so that others in the company would be able to learn about the results.

All this is important. The development by Japanese companies of an international R&D capability most commonly is a response to the specific needs of individual corporate divisions struggling to compete abroad — not a master plan to buy overseas brainpower.

Thus, in establishing an R&D presence in North America, major

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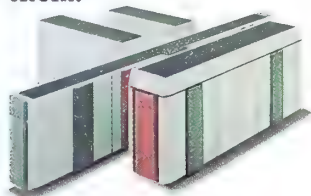
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Japanese companies have followed one or more of five strategies.

Development Facilities

The most visible presence is corporate R&D facilities. The great majority of these is dedicated to product development — either in terms of adapting existing products or creating new ones.

This contrasts with Japan. There, the emphasis in corporate thinking is on the use of technology — the final product. Most companies tend to bind research — basic as well as applied — and development closely together.

Even so, most U.S. development facilities tend to work closely with counterpart laboratories in Japan. Development programs are coordinated, to avoid duplication. Information is exchanged regularly: Toshiba's radiological imaging laboratory in California shares the same Japan-based computer system.

Says Toshiba Executive Vice President for Corporate Technology Dr. Sei-Ichi Takayanagi, "If information is not exchanged and knowledge flows only one way, that is not helpful to development."

Toshiba has four development operations in the United States. These include a radiological imaging laboratory for medical equip-



**Toshiba is actively researching
environmental problems**

ment; an information systems laboratory in California, which focuses on PBXs, applied software and hard disk drives; and Vertex, a San Jose, California, venture capital investment specializing in computer-aided design software for application specific integrated circuits.

In April this year, Toshiba opened its Advanced Television Technology Center in Princeton, New Jersey. This has the task of developing high definition television for the North American market.

Fujitsu's Mikio Ohtsuki emphasizes the role of the company's overseas bases, not only in identifying and meeting local needs, but



also in contributing to Fujitsu's global technology capability through a network of people who can turn technology into solutions.

In North America, Fujitsu is building up an extensive product development capability — and has a substantial track record to show for it. For example, the Advanced Products Division of Fujitsu Microelectronics in San Jose, California, worked closely with Sun Microsystems to develop the SPARC microprocessor, a mainstay of Sun's workstations. Fujitsu Personal Systems, Inc. in Santa Clara, California, is a leading supplier of pen-based palmtops.

Hitachi succeeded in the world's first observation of the smallest unit of magnetization using a holographic electron microscope



Last year the company opened a new telecommunications equipment manufacturing and development center in Richardson, Texas, which is expected to play an important role in the development of SNET (Synchronous Optical Network) products.

Elsewhere, Fujitsu's Hillsboro, Oregon, plant works closely with Intellistor, a Colorado subsidiary, on disk drives, storage devices and controllers. The company also works closely with other U.S. firms in which it has an equity stake, including Amdahl.

Some 90% of NEC's R&D activities in North America, according to NEC Senior Vice President

Yasuo Kato, takes place in development laboratories attached to its main operations areas.

Apart from applied research tied to the needs of specific customers, most of this development work focuses on products dedicated to the North American market. In addition, since these products sometimes have

The Heart of the Matter



They say "the way to a man's heart is through his stomach."

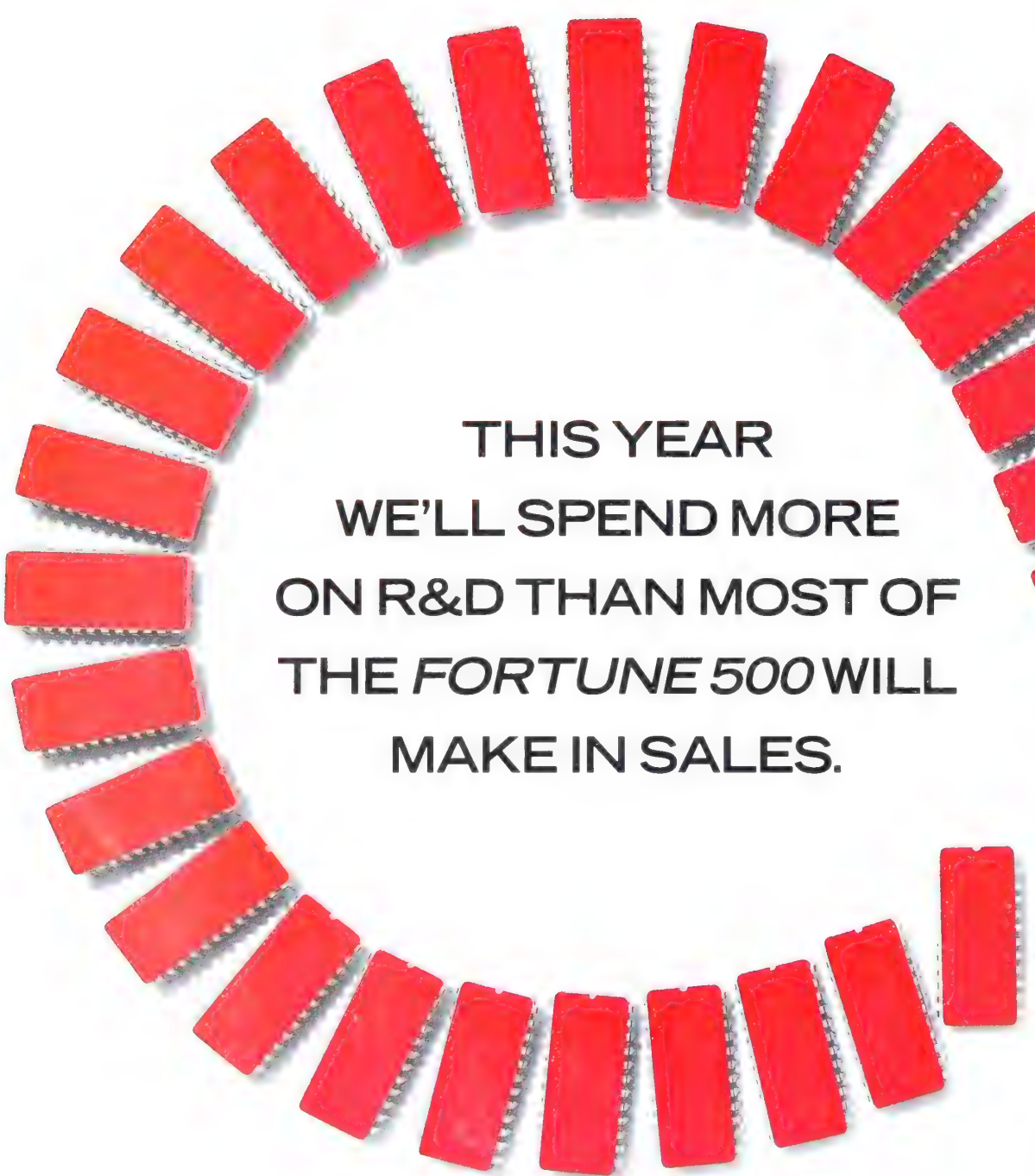
Whether you're a gourmet or gourmand; if you like rich French, succulent Chinese, or fresh Japanese cuisine, or, on the other hand, if you are on a no salt, low sugar or vegetarian diet, you'll delight in the tasty menus prepared by Executive Chef Karl Hoermann. Karl, who learned his trade in Salzburg, and perfected his skills in five-star establishments all over Europe, now runs the best hotel restaurants in Tokyo. At the Tokyu Hotels' flagship, the Capitol Tokyu! His dishes are fit for royal banquets, business lunches, family dinners as well as for weight-watching fashion models. Karl gets to the heart of the matter.



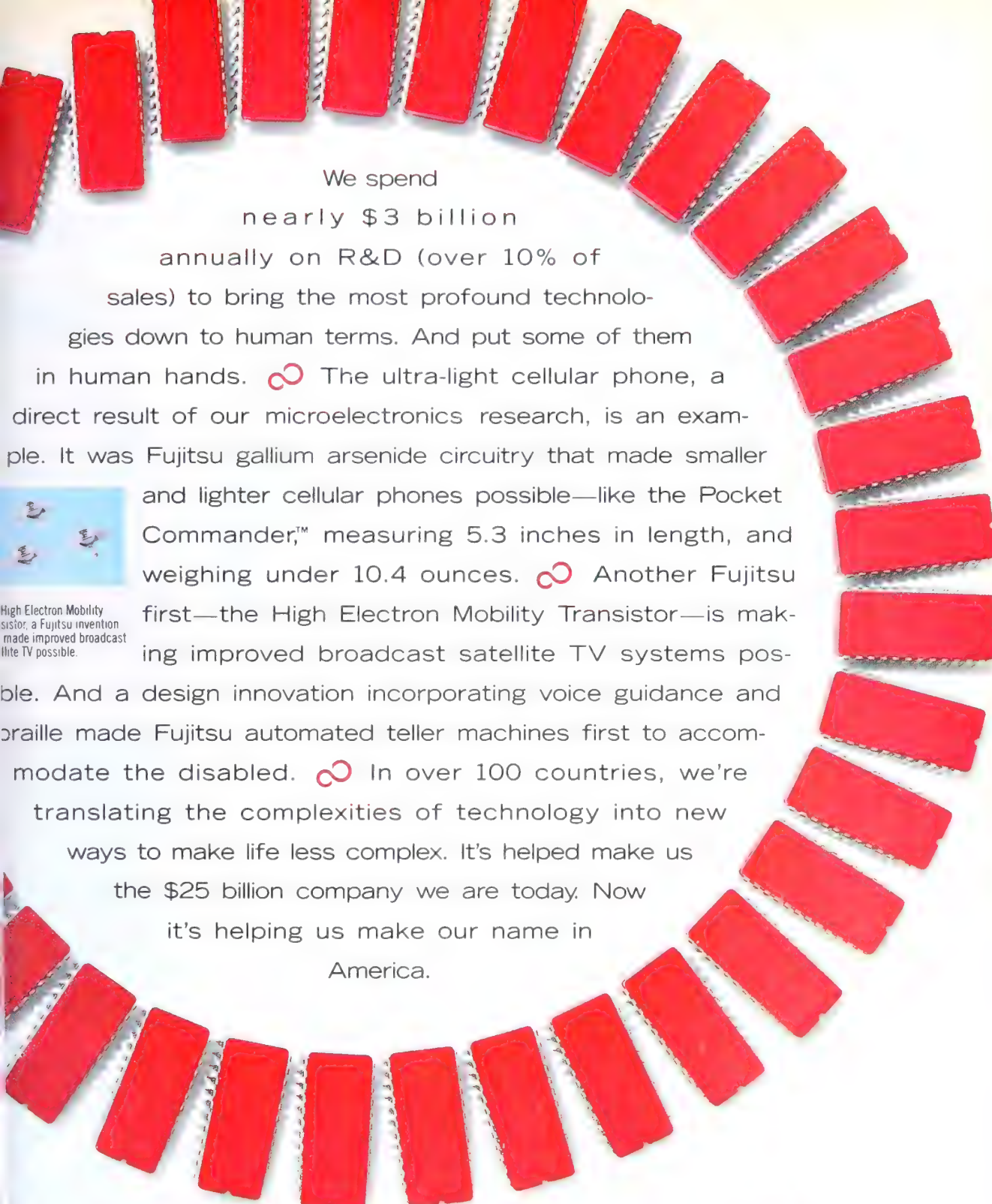
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High Electron Mobility
Transistor, a Fujitsu invention
made improved broadcast
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COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

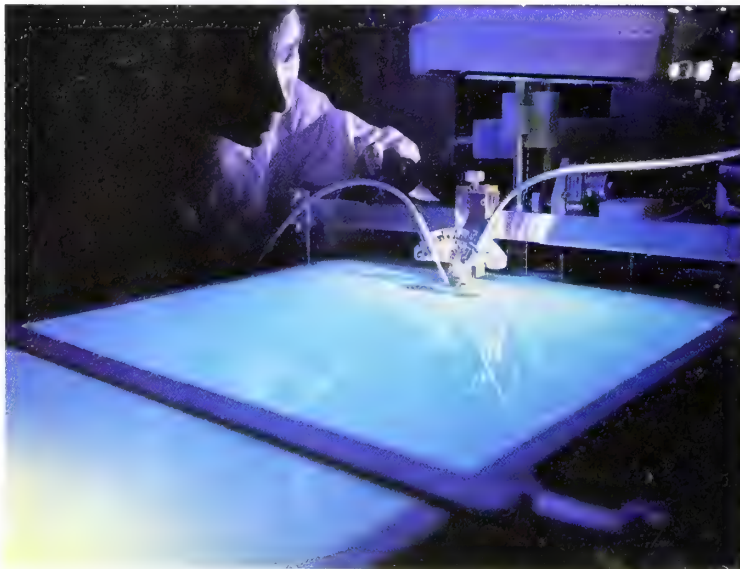


parts in common with products used elsewhere in the world, there is often collaboration on parts and components.

Matsushita has been operating R&D laboratories in North America since the mid-70s. Currently, the company has seven, most headed by non-Japanese, and Dr. Shiro Horiuchi, a director and board member at Matsushita Electric Industrial, emphasizes that the company makes no distinction between its laboratories in Japan or the U.S.

Specializing in digital imaging processing, the Matsushita Applied Research Laboratory in Burlington, New Jersey, is working on video signal processing for recording purposes.

Matsushita's Image Technology Research Laboratory develops high definition imaging



Matsushita technician working on photochromic materials for multilayered recording

The Speech Technology Laboratory in Santa Barbara, California, focuses on speech recognition and synthesis. The Wood Dale, Illinois, Matsushita Industrial Equipment Research Laboratory is developing application software for retail industry equipment.

Matsushita's Communication Systems Technology Laboratory in Secaucus, New Jersey, works on home automation and cable television systems. Nearby, at Burlington, the Panasonic Advanced TV-Video Laboratories represents Matsushita's entry into the U.S. high-definition television market.

Down the road in Princeton, the Matsushita Information Technology Laboratory looks at computer software and especially at personal-use data-base and networking

software. To the south, in North Carolina's Research Triangle Park, the Kyushu Matsushita Electric Research Laboratory is studying satellite communications.

Hitachi is another company which separates research and development outside Japan. Even so, with both activities, notes Executive Managing Director Dr. Yasutsugu Takeda, Hitachi aims at achiev-

ing synergy from its integration with local culture as well as corporate design, sales, marketing, manufacturing, sales, and distribution.

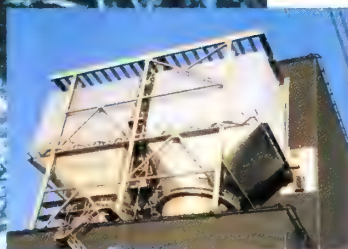
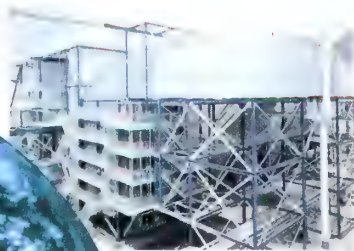
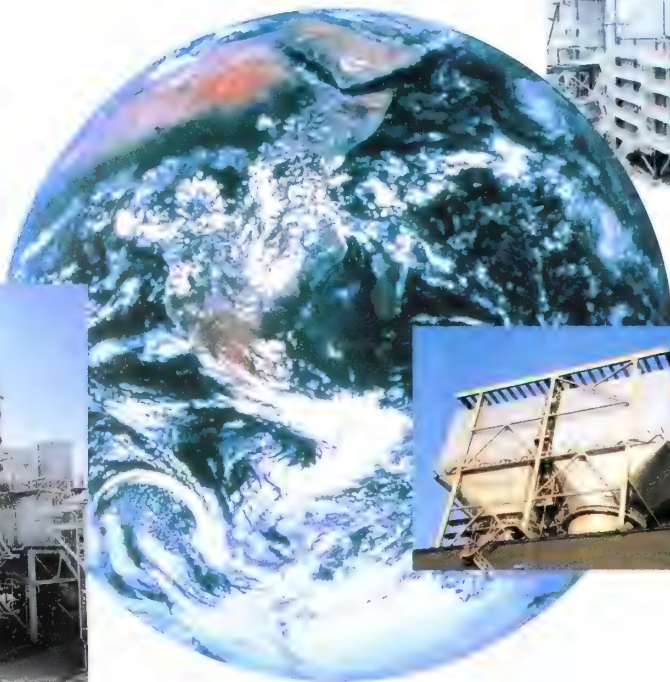
Hitachi operates three development facilities in the U.S. — one for semiconductors in San Francisco, California; another for advanced television and video products located in Princeton; a third for automotive products industry in Detroit, Michigan.

According to Dr. Takeda, Hitachi will gradually expand these facilities. "But it is important to be patient when it comes to innovation and the results of synergistic research. Development work takes about five years to pay off, basic research perhaps ten."

Research Facilities A more recent strategy adopted by

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Kawasaki

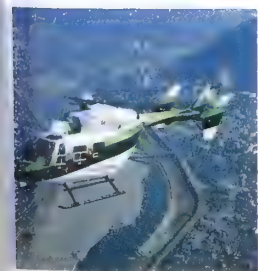


Due to its name, Kawasaki Heavy Industries, Ltd. is widely recognized as the manufacturer of heavy industrial products. Shipbuilding, which started back in 1878, is still playing a major role in our company with many high-tech ships sailing all over the world. Rolling stock is covering Japan and is extending to many cities in other countries. The development of our technology is ongoing, including helicopters, submarines, jet engines and now the space shuttle.

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It's our technology and environmental awareness, backed by our long history of proven engineering capabilities in a wide variety of areas and our ongoing R&D efforts that has made Kawasaki a forerunner in environmentally safe industrial fields.

No matter what we do, whether underground, undersea, overland or up in space, no matter how large our constructions, we work for the global environment upon which our life depends, our life and the lives of generations to come.



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Japanese companies is to establish overseas centers for basic research. Hitachi and Toshiba each have such a facility in Cambridge, England. Sharp has one in Oxford, England. Hitachi has a second center at Ireland's Trinity College, Dublin.

search director working with a small, highly skilled team on a clearly defined target."

Toshiba's Cambridge Research Center is doing fundamental research on semiconductor physics, delving into quantum mechanics to find the solid state devices that

Dublin, which Hitachi's Dr. Take da notes is world-renowned in mathematics, the emphasis is on artificial intelligence.

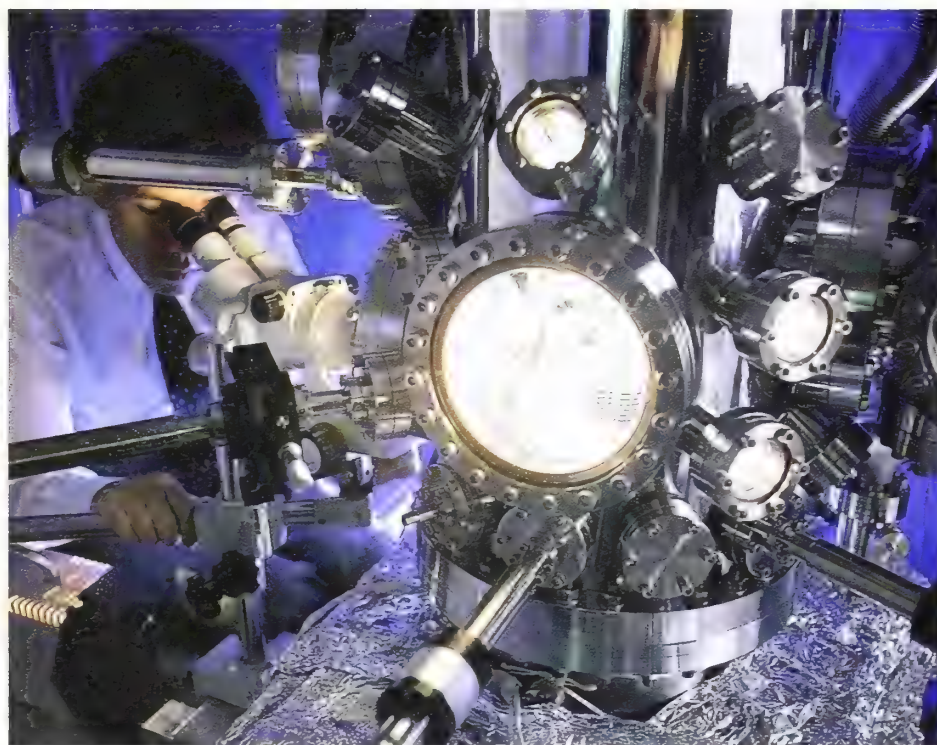
Sharp's Oxford center was the first in a new science park. The facility's mandate covers optoelectronics and machine translation. Sharp has also been invited to join the Oxford Parallel and in conjunction with researchers from Oxford University is looking at parallel processing.

The motive behind such centers is practical — the need to strengthen the resources available for the fundamental research essential to create competitive 21st-century products.

But there is a philosophical dimension as well. Remarks Dr. Shoei Kataoka, executive director and group deputy general manager for Sharp's corporate research and development group: "Up to now the impression is that original research is done in the U.S. or Europe and that Japanese companies are only interested in applied research that will make money now.

"In the future," he continues, "I think Japanese companies must do more original work to develop technology and share with others overseas."

The motive, however, is not entirely a matter of altruism. "Other countries," Dr. Kataoka



Compared to the large R&D centers in Japan, where manpower can exceed five to seven thousand, these offshore facilities are small. But they also tend to be highly focused.

"Research can't always be measured in terms of the size of the investment or the number of researchers," remarks Toshiba's Dr. Takayanagi. "Often the best results come from having an excellent re-

Matsushita's tunnel microscope can distinguish the arrangement of atoms

can replace the current LSI format in the next century.

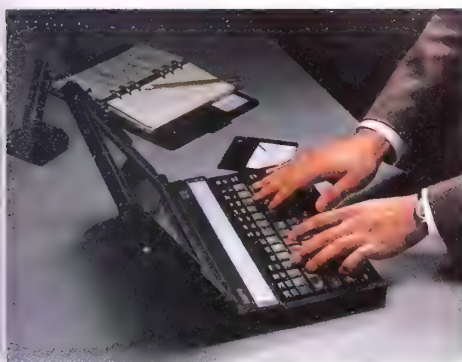
Hitachi's Cambridge facility, on the campus of the University's Cavendish Laboratory, is also looking at quantum physics and the technology needed for future generations of microelectronic products. At Trinity College



points out, "are improving their manufacturing. That means Japanese companies must also balance their resources by strengthening basic research."

The rationale for research bases in Europe — and especially Britain — is also a matter of pragmatism. As Dr. Kataoka points out, the

Sanyo's Japanese language notebook computer with 640 x 480 dot Ax-VGA display



British government is an enthusiastic supporter of such facilities, encouraging links with its best universities. Occasional criticism in the U.S. about Japan's local investment in R&D gives some Japanese companies cause for concern about the openness of the North American environment.

One company that has established a basic research capability in the U.S. is NEC. The NEC Research Institute in Princeton has a staff of almost 100, while the newer C&C Research Laboratory is just starting up.

The Hotel Okura: A Service Sector Pace-Setter

The Hotel Okura is more than a Tokyo landmark. Located opposite the U.S. Embassy, for 30 years it has been a key venue for business and governmental meetings. It has also played host to countless international gatherings, including gatherings related to the International Monetary Fund, the Trilateral Commission and the Organization for Economic Cooperation and Development.

In recent years much has been done to refurbish the hotel. The process continues as the hotel works to make the rooms even more convenient to guests with private business areas that include dedicated fax machines. According to General Manager Goro Yamazaki, many of the changes are the result of guest suggestions.

The hotel is a model for labor efficiency in Japan's tight labor market. Much has been done to upgrade computer systems and subcontract subsidiary services. The Okura has also brought in trainees from its overseas hotels to ensure adequate staffing levels.

Outside Japan the Okura operates a number of hotels, including the Garden Hotel in Shanghai, and the Kona and Halekulani in Hawaii.

NEC views this as a long-term investment. Says Kato, "A research facility is not like a factory. It takes a long time to build a center of excellence."

The Princeton institute is intended to focus on the physical and computer sciences. "We'd like to have synergy between the two,"



**Tokyo's world famous
Okura Hotel**

Kato notes. However, the researchers have considerable latitude. "This is a purely American company," Kato adds.

Currently one focus is on the fundamentals of artificial intelligence and new devices related to inference learning. These are fields which are not being covered at



Kikkoman: A High-Tech Company with a Long History

Kikkoman has been involved in biotechnology R&D for some three hundred years. That is what the making of soy sauce involves.

Today R&D focuses both on making advances in other biotech fields and on creating new high value-added convenience products.

In Japan Kikkoman wants to expand its soy sauce product line. It is also revitalizing the Del Monte brand, which it acquired for the Asia-Pacific region, excluding the Philippines. It is introducing two soups with the taste of fresh home-made Japanese soup.

Overseas, Kikkoman has already achieved enormous success in the U.S. According to Executive Managing Director Yuzaburo Mogi, 40% of non-Asian restaurants in the U.S. now use soy sauce and 20% always use Kikkoman products.

In Europe Kikkoman is still building market awareness. It operates six restaurants in Germany — in Hamburg, Düsseldorf, Berlin, Frankfurt and Cologne. It has one each in Geneva and Vienna.

Plans call for a teppanyaki restaurant in London. Says Mogi, "Teppanyaki represents a fusion of eastern and western cuisines."

Soy sauce is now common in non-Asian as well as Asian restaurants



NEC's R&D centers in Japan, where the program is less free-wheeling. "It is all very different from what is done in Japan," comments Kato.

Sponsored Research Sponsored research is a vital component of R&D in the U.S. allowing

industry and scholars to join forces in the development of new technology. More than that, for many higher education institutions, the overhead charged on sponsored research projects is vital to budgetary survival, affecting not only engineering and the sci-

ences, but all aspects of the university.

Quite apart from grants made through corporate foundations — such as the Hitachi Foundation or the Matsushita Foundation — many Japanese companies actively sponsor important university research. Here are two U.S. examples:

Hitachi is working with Carnegie-Mellon on machine translation. It is collaborating with researchers at Yale on semiconductor materials for advanced LSIs. On the west coast, it has a program with the University of California, Irvine to study autonomous distributed processing systems.

One of Matsushita's tie-ups is with the City University of New York and the Lexington Center, Inc., a school for the deaf in Lexington, New York. The program involves a special training system for people with hearing disabilities. The original system was developed in Japan. In this program it is being adapted and improved for the English language.

Conferences And Educational Programs Increasingly, Japanese companies are paying attention to the dissemination of information and ideas.

Almost a decade ago Hitachi established HIVIPS — the Hitachi Research Visit Program. Since then, other companies have



joined, and more than 300 foreign researchers have had an opportunity to come to Japan and continue their work in R&D centers.

The objective, explains Hitachi's Dr. Takeda, is reciprocity: "Over the years Japan has sent many of its researchers abroad. This program allows us to give something back and encourage synergistic research."

Fujitsu takes a different approach in its support of the independent JAIS — the Japan-America Institute of Management Science — in Honolulu, Hawaii. Every year for the past 20 years JAIS has brought together students from Asia, North America and Europe who want to study management in a cross-cultural environment.

Through language and management courses as well as internships, it offers an unmatched introduction into the world of Japanese business. At the same time it increased the understanding of its Japanese students about how business operates in other parts of the world.

Conferences are another important vehicle. They allow companies to promote the exchange of research results and showcase their brightest stars.

Annually Matsushita stages an in-house symposium on research findings in which its overseas laboratories can participate. And,

DKB Seeks to be a Bridge Between the U.S. and Japan

With branches in every Japanese prefecture, DKB — the Dai-Ichi Kangyo Bank — has the resources to effectively service foreign companies doing business almost anywhere in Japan. With a corporate culture oriented to customer service, it seeks to create financial services products suited to customer requirements.



DKB is a major participant in the global financial marketplace

Some two hundred foreign companies already rely on DKB not only for regular banking services, but also for advice on business expansion in Japan including M&A, assistance in arranging loans from government financial institutions. Moreover, given DKB's strength throughout Asia, many use the bank to help expand their business in the wider regional market.

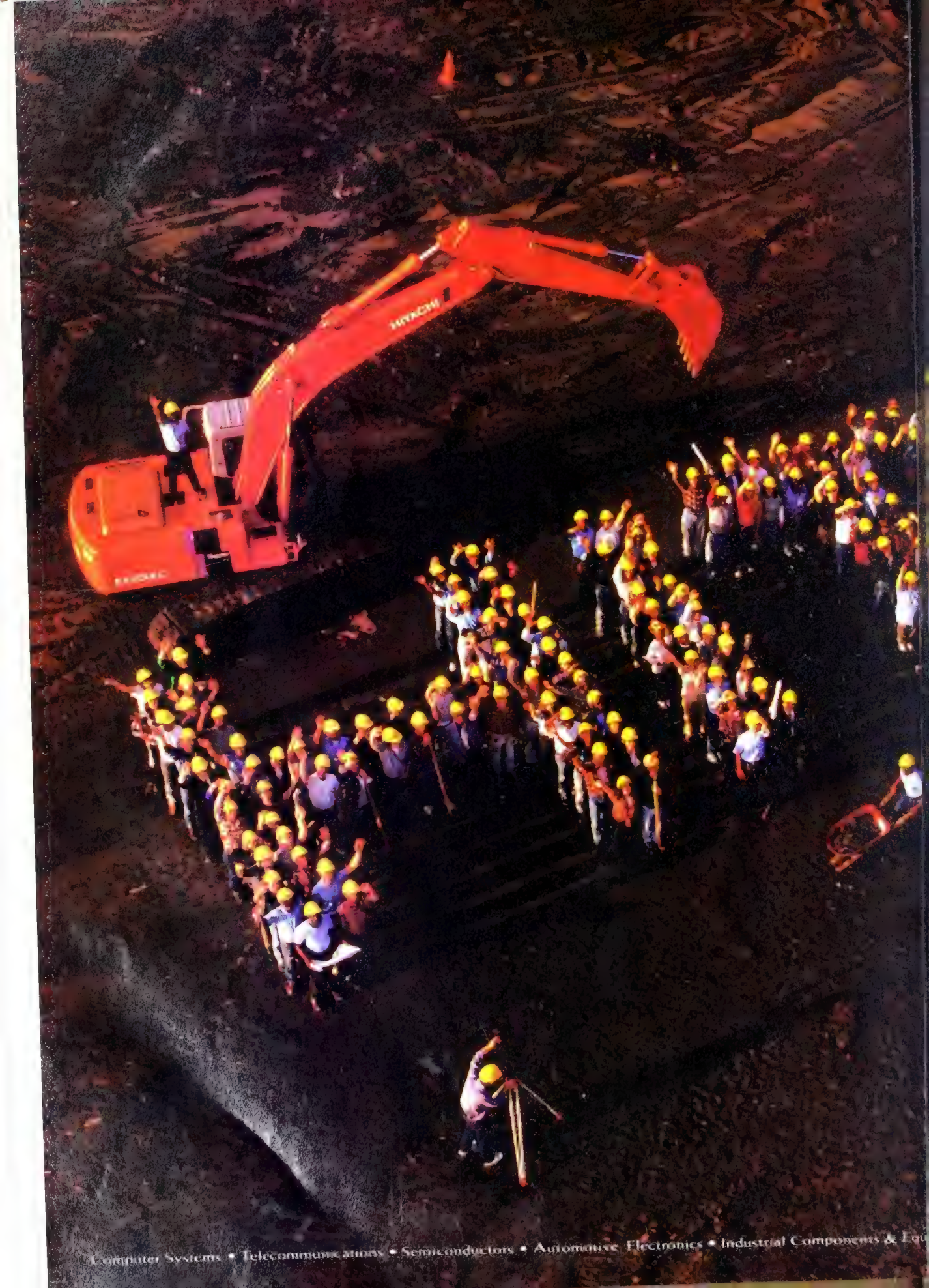
In North America, much of DKB's business focuses on helping Japanese — as well as U.S. and Canadian — clients operate more effectively. The bank has operations based in New York, Chicago, Los Angeles, San Francisco, Atlanta, Houston, Toronto and Vancouver.

Apart from traditional banking services its capabilities include mergers and acquisitions, business advisory, trust, securities, futures brokerage, swaps and derivatives. In 1989 it acquired a 60% interest in the CIT Group, which gives it strength in leasing and factoring. CIT has established a Multi-National Marketing Group to promote CIT's business with non-U.S., especially Japanese, companies.

every 18 months it organizes SAS-MAII (Synthesis and Simulation Meeting and International Interchange), a major international program on developments in

semiconductor technology.

Hitachi supported a recent international conference on autonomous distributed processing systems. In addition, every three



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Komatsu Aims To Become an Insider

Over the last decade Komatsu has accelerated its international activities, building a plant in Tennessee, tying up with Dresser in a 50-50 joint venture, making acquisitions in Europe. Now the company wants to go beyond having merely an international presence.

In each of the markets where Komatsu operates, President Tetsuya Katada aims ultimately to assimilate into the local community. This, he acknowledges, requires a full understanding of the local culture and business environment. Affecting everything from production to R&D, it emphasizes human resources.

"We have to recruit the best possible local management and give them responsibility," says Katada. Consequently, in the Komatsu-Dresser joint venture, the CEO and top management are all Americans. "We have only two board seats," Katada notes, "even though we have half the equity."

At home Komatsu is trying to internationalize its management perspective. Here it has the advantage of a decades-old practice of sending staff overseas for training and university courses — so far more than 500 have benefitted.

Yet Katada believes more is needed: "In Japan, where international awareness lags, we'd like to initiate change. We Japanese must internationalize our own perspective."

Toward that end, the company has already recruited eleven non-Japanese to work at the Tokyo headquarters in R&D and overseas marketing.

Last year, moreover, Komatsu introduced an internship program for overseas university students to work two months at the company. The objective is to help them learn about Komatsu and Japan, and Komatsu people learn more about the world.

This emphasis on a change of perspective is part of a broader transformation underway at Komatsu as it evolves into a total technology company. Over the last decade it has increased the proportion of its income from non-construction equipment from virtually nothing to 35% in FY1991-92.

In April this year it separated its electronics operation from its new business development department. This month it established a construction equipment division. "That," remarks Katada, "is a major change at a company once synonymous with construction equipment."



Komatsu headquarters building.

years since 1983 it has sponsored an International Symposium on the Foundations of Quantum Mechanics.

The initial impetus for these symposia was the success of Hitachi researcher Dr. Akira Tonomura in proving a key theory in quantum mechanics.

"Today," says Dr. Takeda, "the first objective is to encourage young researchers from different countries. The second is to make Hitachi accessible to specialists from around the world. The third is to provide a forum for a synergistic discussion which will help lead to the next phase of development."

Joint Development As technology development grows more and more complex — and expensive — development tie-ups are growing increasingly common. The aim, points out Toshiba's Dr. Takayanagi, is not to save resources, but to maximize them: each partner must be strong in its own particular field.

Toshiba, for example, is working on nuclear energy with GE, and Hitachi. It collaborates on application-specific integrated circuits with Siemens. It is developing thin film transistor liquid crystal displays with IBM Japan.

Sharp is investigating flash



memories with Intel. Sanyo has a tie-up with Alliance Micron Technology of Boise, Idaho, a silicon foundry, and sells its products in Japan. Sanyo also has links with Olivetti in fac-similes and GE in air-conditioners and rotary compressors.

Hitachi's tie-ups include 64-megabit DRAM semiconductors with TI Japan. It is exploring RISC chips with Hewlett-Packard. It is working on satellite technology with TRW.

In telecommunications, Hitachi is collaborating with AT&T on optical communications and has a global partnership with Bellcore

NEC's European Technical Center develops and designs customized LSIs for the European market



Laboratories on broadband ISDN (Integrated Services Digital Network) technology, which will be key to communications later in the decade.

Matsushita is cooperating with Philips on digital compact cassettes. It is collaborating with Symetrix Corporation on new semiconductor devices featuring ferroelectric technology.

It is also working closely with Gain Technology, a California company, to develop the software needed to edit multimedia information. Here Matsushita engineers



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Kawasaki Heavy Industries: Improving International Coordination

"Today economic activities are taking on global dimensions," remarks Toshiya Kohama, Kawasaki Heavy Industries (KHI) executive managing director. "We are entering an era of a borderless economy." This can create as many problems as opportunities.

KHI product line-up includes aircraft, ships, railroad rolling stock, motorcycles, plant engineering and a broad range of machinery. Now, it finds it must change the way it does business.

Key recent initiatives have been decisions to expand imports aggressively in an effort to reduce Japan's trade imbalance and to increase overseas production. "This will positively contribute not only to our company," says Kohama, "but also to the countries that accept our investment."

Organizationally, KHI has made other changes as well. "Due to rapid technological innovation and changes of market structure, there are occasions when the established divisional management organization cannot quickly or effectively respond to market needs and customer requirements," Kohama acknowledges.

This led KHI to set up an "Inter-Divisional Activities" unit as a corporate headquarters staff organization. Its mission is to develop marketing strategies and promote activities for the penetration of new markets. The unit is responsible not only for sales, but for imports into Japan, expanding overseas production, strategic planning and promoting joint R&D projects.

This should have a significant impact on KHI's already substantial presence in the U.S. The company has a number of U.S. plants. It manufactures rolling stock in Yonkers, New York; robotics in Farmington Hill, Michigan; and machinery in Newnan, Georgia. It has been manufacturing motorcycles in the U.S. since the mid-70s, first at Lincoln, Nebraska, later at Maryville, Missouri.

KHI builds jetfoil ships under license from Boeing. It is also part of the Japan Aircraft Development Corporation, a consortium founded to collaborate with Boeing on the design, manufacturing and testing of the mainframe for the B777 aircraft. KHI's share will be about 20% of the total, including the forward and center fuselage.

**Kawasaki's tunnel boring machine
of the type that achieved record
progress on the Channel tunnel**



provide the Japanese-language component.

As Dr. Horiuchi implies, this research disproves the notion that Japanese companies only support R&D projects with an obvious pay-off in sight. "The research is excellent," he remarks, "but it still has to be made into a real business."

According to Dr. Horiuchi a successful collaboration begins with each party being strongly centered on the target. "There needs to be complete agreement on how to share the results," he says.

Hitachi's Dr. Takeda agrees, suggesting that not only are mutual understanding and trust essential, but that every stage of the collaborative process must be clearly detailed in advance.

"Communications is the biggest problem," says Dr. Horiuchi, "not communications in terms of language, but of value. Japanese tend to focus on the final result of the research. Americans concentrate on the fundamental concept."

This potential for misunderstanding, perhaps, is what leads Dr. Takeda to suggest that another key to successful collaboration is to agree in advance on how to return the results to the local society.



Japanese Overseas R&D: Is There A Contribution?

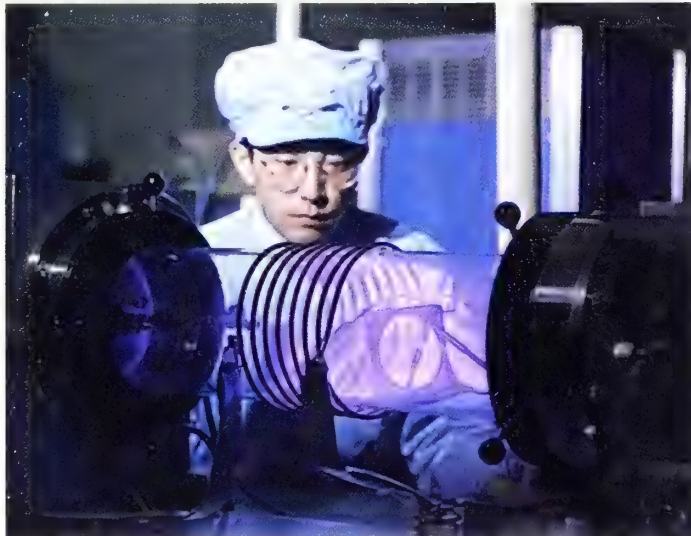
R&D is not hardware. It is not finite, even when highly focused or precisely targeted. It is a process — like a falling row of dominos or a chain reaction. Viewed as a whole it creates its own free market of ideas and, thus, cannot be contained or monopolized.

That is why the British government encourages Japanese companies to establish overseas R&D facilities in its science parks.

Each of the Japanese companies discussed here — Fujitsu, Hitachi, Matsushita, NEC, Sanyo, Sharp and Toshiba — has a substantial “technology bank.” They come strong in key technologies — such as microelectronics and optoelectronics, as well as production technology.

They are looking for offshore bases and link-ups that give them an opportunity to cooperate in creating the technologies they need in order to remain competitive.

But to create new technology, they must share their knowledge and expertise. Inevitably they do more than expand the skills and knowledge of their overseas partners. They trigger ideas which may well lead their one-time partners or employees to devise competing technologies and



Inside a materials and components research laboratory investigating the next generation of electronic componenets

products. That is a risk these companies understand and recognize is part of the price of international cooperation.

“Research, especially basic research, knows no national boundaries,” observes NEC’s Kato. “We live in a global economy — no one can reverse that. All forms of international R&D collaboration will grow more and more common.”

*Text by Christopher S. Gray who is an expert on business in Japan and Asia.
Design by Parham Santana, Inc. NYC*

*R&D knows
no boundaries.
The United States
can only benefit
from continued
interest by Japanese
companies in
local R&D.*

THE GLOBAL 1000

COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (W.S. \$) (LOCAL)	PRICE/BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %	
238	Fukuyama Transporting	976	1997	7	-28	-34	2.2	16	1.2	1566*	71*	1731	13.4
239	Arabian Oil	977	1994	38	-24	-29	4.4	554	0.8	1233	4	1294a	0.8
240	Nisshin Flour Milling	982	1981	9	11	-17	2.2	27	0.5	2569	65	1621	7.9
241	Nikon	983	1971	5	43	-48	1.6	15	1.3	2170	123	2762	11.2
242	Orient	994	1946	6	32	-37	1.0	33	1.7	NA	57b*	46972	3.0
243	Victor Co. of Japan	996	1945	8	31	-36	0.8	125	1.0	6589	114	4773	0.6
244	Tomen	997	1944	3	-26	-32	2.1	34	1.5	53071	52	18466	6.1
245	Okumura	1000	1936	8	-24	-30	2.1	22	1.1	2419*	70*	3460	9.2
MALAYSIA													
COUNTRY COMPOSITE			7046	3	15	7	2.6	20	1.8	3151	294	19520	12.9
1	Malayan Banking	824	2428	3	24	14	2.1	23	1.6	NA	119	16129	9.1
2	Sime Darby	830	2402	2	7	-1	2.1	19	2.6	3151	175	2432	11.5
3	Genting	888	2216	5	16	7	3.5	20	1.1	NA	NA	959a	18.0
NETHERLANDS													
COUNTRY COMPOSITE			114535	58	24	15	5.9	13	3.8	232172	11303	653326	35.0
1	Royal Dutch Petroleum (1)	NR	46631	87	6	-1	1.4	16	5.2	102697	4288	105553	8.8
2	Unilever NV (2)	NR	16368	102	21	13	4.6	14	3.0	42189	2091	23987	34.0
3	Internationale Nederlanden Group	277	6703	27	1	-6	0.9	8	6.3	11004	918	173746	11.3
4	Philips Electronics	288	6580	21	31	22	1.0	12	0.0	33256	572	29067	8.8
5	ABN AMRO Holding	294	6465	24	23	15	0.8	9	6.5	NA	793	242182	8.9
6	Polygram	391	5001	29	59	48	12.3	20	1.1	3866	260	2903	60.4
7	Akzo	485	4064	88	51	41	1.5	10	4.1	9831	403	7925	14.8
8	Elsevier	489	4042	62	40	30	9.7	19	2.0	1324	222	1411	50.4
9	Heineken	540	3711	92	40	30	2.0	16	1.7	4400	239	4624	12.2
10	Aegon	627	3222	68	9	1	1.0	7	6.0	4634	482	35796a	14.2
11	Dordtsche Petroleum	739	2674	81	5	-2	38.8	19	5.4	NA	151a	74a	207.9
12	Ahold	832	2387	48	14	6	3.4	16	1.9	12130	156	3136	20.7
13	Wolters Kluwer	833	2380	41	44	34	9.9	20	1.6	1389	128	1126	50.8
14	DSM	878	2239	64	10	3	0.7	10	6.9	5453	289	5966	6.7
15	AMEV	942	2069	30	4	-3	1.0	7	5.5	NA	310	15830a	14.7
NEW ZEALAND													
COUNTRY COMPOSITE			7804	2	23	34	1.4	14	5.2	10387	656	17816	10.2
1	Fletcher Challenge	683	2866	2	-11	-3	0.9	10	6.0	7573	366	10917	9.0
2	Telecom Corp. of New Zealand	765	2605	1	NA	NA	1.9	13	5.2	1428	195	2768	14.8
3	Carter Holt Harvey	850	2333	1	57	71	1.3	20	4.3	1386	96	4131	6.7
NORWAY													
COUNTRY COMPOSITE			8443	29	19	11	4.0	17	1.4	11194	-105	13558	30.9
1	Norsk Hydro	337	5801	28	7	-14	2.7	LOSS	2.0	10271	-278	11625	NEG
2	Hafslund Nymed	753	2642	29	46	36	5.2	17	0.9	923	173	1932	30.9
SINGAPORE													
COUNTRY COMPOSITE			16354	6	7	-1	1.9	17	1.5	3791	1109	75363	11.3
1	Singapore Airlines	392	4993	8	2	-6	1.3	9	2.5	2761	509	5055	14.8
2	Development Bank of Singapore	539	3713	7	5	-3	1.6	19	1.0	NA	193	33687	8.5
3	OCBC Overseas Chinese Bank	612	3286	6	9	1	2.2	21	1.2	NA	157	19268	10.5
4	United Overseas Bank	869	2266	4	5	-3	1.7	14	1.9	NA	161	14364	12.2
5	Keppel	933	2097	5	14	6	2.5	24	0.8	1030	89	2990	10.4
SOUTH AFRICA													
COUNTRY COMPOSITE			30200	19	7	0	2.3	14	3.7	627	2618	13413	15.5
1	De Beers Centenary	152	10025	26	12	5	NA	9	3.9	NA	1191a	NA	NA
2	Anglo American	207	8206	35	8	1	1.7	15	3.3	NA	495a	6302a	11.4
3	Gencor	384	9174	4	7	0	1.5	12	4.2	NA	496a	3428a	12.2
4	Johannesburg Consolidated	797	2493	17	20	12	3.1	17	2.8	NA	148a	1623a	19.0
5	Driefontein Consolidated	847	2341	11	-1	-8	3.0	13	4.9	627a	177a	968a	23.8
6	Gold Fields of South Africa	959	2032	21	5	11	2.0	18	3.3	NA	111a	1092a	11.1
SPAIN													
COUNTRY COMPOSITE			79644	45	13	6	1.9	16	4.3	52027	7489	381346	15.0
1	Telefónica Nacional de España	133	10812	12	23	15	0.9	10	5.0	10848	1075	34453a	8.2
2	Endesa	171	9539	37	70	59	2.2	10	3.3	5943a	971	14365a	22.0
3	Repsol	186	9047	30	22	15	2.3	13	3.2	14825a	726	12436a	19.0
4	Banco Bilbao Vizcaya	268	6909	30	-7	-13	1.4	7	5.4	NA	1065	88230a	20.5
5	Iberdrola	302	6374	8	12	5	0.7	11	7.9	3175a	333a	14292a	5.7
6	Banco Central	315	6084	35	-16	-21	1.0	8	6.0	NA	792	40631a	13.1
7	Banco de Santander	361	5401	49	-8	-13	1.7	7	4.9	NA	735	60248	23.6
8	BEX (Banco Exterior Internacional)	555	3608	34	8	1	1.8	16	4.7	NA	136a	26732a	11.1
9	Pryca	558	3594	19	14	NA	5.0	38	0.8	3061a	91a	1601a	13.1
10	Banco Popular Espanol	611	3299	114	5	-1	1.8	7	5.6	NA	465	25843	26.7
11	Banco Espanol de Crédito	689	2825	29	-25	-30	1.0	5	7.1	NA	583a	52365a	19.4
12	Fomento de Construcciones y Contratas	761	2627	156	-6	-11	NA	24	0.9	2678a	113a	1336a	NA
13	Gas Natural	767	2604	70	38	29	2.2	25	1.2	580a	72a	1022a	8.7

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	GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$) (LOCAL)		PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %	INDUSTRY CODE
Autopistas CESA	802	2470	14	38	30	2.4	22	5.4	370a*	117a*	2193a	11.1	52
Tabacalera	845	2349	64	3/	28	3.5	18	2.8	6132a	138a	2271a	19.8	43
CEPSA	930	2103	24	8	2	1.3	29	4.2	4415a	75a	3330a	4.6	11
EDEN													
COUNTRY COMPOSITE		65180	46	7	1	2.3	23	2.8	79778	3480	97037	12.8	
Astra	115	11652	98	26	17	8.6	31	0.6	2254	394	2655	27.4	45
Procordia	217	7891	31	1	-8	2.6	12	1.7	6917	184a	5881a	22.4	71
ASEA (4)	NR	6082	67	8	1	3.0	17	1.8	NA	384	2379	18.1	34
Volvo	354	5506	71	25	17	1.0	23	3.8	13927	243	18119a	4.3	42
M. Ericsson	367	5266	26	-19	-24	1.9	40	2.4	8260	559a	8369a	4.7	34
Sandvik	549	3641	67	27	19	1.8	16	2.3	3167	335a	4094a	10.8	25
Investor	567	3546	26	1	-5	3.2	14	3.5	NA	71a	1890a	23.2	71
Electrolux	584	3441	47	11	4	1.3	53	4.6	14265	116a	11675a	2.5	41
Svenska Cellulosa Aktiebolaget	585	3439	20	14	6	1.8	21	2.8	5915	188a	8594a	8.5	23
Kopparbergs Bergslags	637	3167	53	-9	-15	1.1	36	4.2	12101	225a	14969a	3.0	23
Skanska	776	2567	20	-33	-37	1.7	13	2.8	5483	210a	8933a	13.6	32
AGA	808	2460	51	2	-4	2.1	15	2.9	2295	174	3243	14.7	22
KF	839	2363	22	NA	NA	1.4	LOSS	3.4	NA	NA	NA	NEG	37
Incentive	914	2132	32	NA	NA	1.5	8	3.2	2483a	269a	3756a	18.2	71
Atlas Copco	964	2026	58	45	35	1.9	23	2.4	2711	128a	2479a	8.4	38
SWITZERLAND													
COUNTRY COMPOSITE		118528	2421	7	6	2.0	17	2.3	136650	8170	565764	11.9	
Nestle	35	24601	6708	11	10	2.9	15	2.2	37078	1814	28722	20.2	44
Roche Holding	50	20817	3155	20	20	2.7	26	0.6	8415	1087	18392	10.3	45
Novartis	95	14577	1992	16	15	2.6	19	1.2	9868	818	11732	13.8	45
Roche-Geigy	98	14158	2409	22	21	1.2	16	1.8	15477	940	20881	7.7	22
Union Bank of Switzerland	108	12256	2621	3	2	1.0	15	3.5	NA	896	183040	7.0	61
Kredit Suisse Bank Corp.	300	6390	185	-20	-21	0.8	9	5.2	NA	758	151836	8.4	61
Swiss Holding	331	5854	1352	-1	-2	1.1	9	3.8	NA	720	9366a	13.1	61
Swisscom	362	5395	2868	-13	-14	1.4	21	1.7	12317a	302a	44351a	6.6	63
BC Brown Boveri (4)	NR	4790	2964	-6	-7	2.7	16	2.0	30110	319	30399a	16.5	34
Alpine	527	3762	1780	-13	-14	2.1	26	1.7	10926a	158a	32074a	7.9	63
Winterthur	563	3567	2307	-17	-18	1.5	25	2.0	10720	176a	33466a	6.0	63
AMH	843	2360	715	79	78	3.4	14	1.3	1740	185	1505a	25.0	46
UNITED STATES													
COUNTRY COMPOSITE		2869296	73	14	14	3.3	25	2.7	2709191	129003	6168928	16.7	
Exxon	3	75296	61	4	4	2.2	16	4.8	115000	5600	87560	13.3	11
Philip Morris	4	71288	78	13	13	5.7	17	2.7	56500	3930	47380	32.7	43
General Electric	5	65997	76	1	-1	3.0	15	2.9	60200	4440	168300	20.6	34
Wal-Mart Stores	6	60819	53	24	24	11.3	38	0.4	43837b	1608b	11389	29.8	54
Pepsi-Cola	7	58474	44	54	54	13.2	35	1.3	11570	1620	10222	38.1	43
Merck	8	58411	50	27	27	11.9	27	1.8	8603	2122	9498	44.8	45
American Telephone & Telegraph	9	55853	43	14	14	3.4	89	3.1	44700	520	53360	3.9	55
International Business Machines	10	51820	91	-14	-14	1.4	LOSS	5.3	64800	560	92470	NEG	33
Pfizer-Myers Squibb	15	37600	72	-10	-10	6.5	18	3.8	11159	2056	9416	36.5	45
Pont	17	35408	53	12	12	2.1	22	3.3	38700	1730	36110	9.8	22
Roche & Gamble	18	34739	103	21	21	6.1	20	2.1	27026	1773	20468	30.3	44
Johnson & Johnson	22	32275	97	7	7	5.7	21	1.9	12447	1461	10513	26.8	45
PepsiCo	27	28955	37	16	16	5.2	26	1.4	19608	1080	17143a	19.8	43
Abbott Laboratories	28	28496	67	30	30	8.8	25	1.8	6877	1089	6255	35.2	45
GE	29	27889	31	5	5	2.6	16	5.4	19621	1696	42440	16.0	55
General Motors	31	27396	40	-8	-8	0.8	LOSS	4.0	105000	-4990	184300	NEG	42
Exxon	33	25890	65	-1	-1	1.5	20	4.9	62700	1920	42180	7.3	11
Exxon	34	24747	71	-3	-3	1.7	24	4.6	40900	1290	34640	7.0	11
Exxon	36	24600	75	27	27	4.9	34	2.0	6950	722	9635	14.5	45
Exxon	37	24382	49	-6	-6	1.7	25	4.5	28300	1530	30510	6.8	11
American Home Products	38	23711	75	27	27	7.2	17	3.5	7079	1375	5939	43.3	45
Johnson & Johnson	40	23164	48	-4	-4	1.8	15	5.8	14400	1510	30940	11.9	55
General Motors	45	21446	44	20	20	0.9	LOSS	3.6	88300	-2260	174400	NEG	42
Microsoft	47	21320	121	65	65	15.6	49	0.0	1843	463	1644	31.7	52
Minnesota Mining & Mfg.	49	20959	96	0	0	3.3	18	3.3	13340	1154	11083	18.1	71
Walt Disney	55	19790	38	31	31	5.1	28	0.6	6182	637	9429	18.0	53
Pfizer	57	19313	66	-17	-17	3.9	14	3.3	5726	1315	8299	27.5	45
Hewlett-Packard	58	19118	76	40	40	2.6	20	1.1	14494	755	11973	13.0	35
Atlantic	61	18501	43	-8	-8	2.2	12	6.0	12300	1330	27880	17.5	55
Atlantic Richfield	62	18176	114	-8	-8	2.5	19	4.8	18800a	1690a	23870a	13.7	11
Southwestern Bell	63	18085	60	16	16	2.0	15	4.8	9332	1157	23180	13.4	55
American International Group	64	17937	85	-7	-7	1.6	11	0.7	9146	1553	69390	13.8	63
Waste Management	66	17647	36	-13	-13	4.3	29	1.2	7551	606	12572	14.7	52
Donald's	72	16744	47	34	34	4.2	20	0.9	6695	860	10667a	21.6	53
Meritech	73	16616	62	3	3	2.1	14	5.7	10820	1170	22290	15.7	55
Kaco	74	16544	64	-1	-1	1.8	17	5.0	37300	1290	26180	10.8	11
W Chemical	75	16513	61	10	10	1.7	22	4.3	18807	942	24727	7.9	22

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COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$) (LOCAL)		PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %	IND.
38	Pacific Telesis	76	16425	41	0	0	2.1	15	5.3	9895	1015	21840	14.2	5
39	Schlumberger	80	15777	66	3	3	4.1	23	1.8	6145	664	6854	17.9	3
40	BankAmerica	82	15578	46	15	15	1.5	10	2.8	NA	1124	115500	15.5	6
41	Nynex	83	15483	76	6	6	1.7	13	6.1	13200	1150	27500	13.2	5
42	Anheuser-Busch	85	15322	54	4	4	3.5	16	2.1	10996	940	9987	21.4	4
43	Federal National Mortgage Assn.	86	15249	64	25	25	3.9	12	2.1	NA	1455	133100a	33.6	6
44	Sears, Roebuck	88	15011	44	7	7	1.1	12	4.6	57200	1150	106430	9.0	5
45	Home Depot	89	14983	71	61	61	8.8	55	0.3	5137b	249b	2510b	16.1	5
46	Boeing	90	14974	44	-10	-10	1.9	9	2.3	29314	1567	15784	20.9	5
47	US West	96	14256	35	-5	-5	1.5	12	6.1	10577	1143	27860	12.5	5
48	Kellogg	99	14067	59	19	19	6.5	21	1.9	5787	606	3926	30.6	5
49	Pacific Gas & Electric	101	13414	32	24	24	1.7	12	5.5	9778	1026	22900	14.0	5
50	Eastman Kodak	103	12957	40	-6	-6	2.1	LOSS	5.0	19419	17	24170	NEG	5
51	Sara Lee	109	12065	51	26	26	4.7	17	2.0	12382	535	8122	27.1	5
52	RJR Nabisco Holdings	119	11497	10	-7	-7	1.4	32	0.0	15000	370	32130	4.5	5
53	Emerson Electric	122	11371	51	2	2	3.5	18	2.7	7427	632	6364	19.8	5
54	NationsBank	127	11034	47	10	10	1.8	61	3.2	NA	202	110300	2.9	5
55	Gillette	129	10877	50	36	36	10.3	24	1.5	4684	427	3887	42.3	5
56	J. P. Morgan	130	10874	57	4	4	1.9	10	3.8	NA	1146	103400	19.4	5
57	Union Pacific	134	10811	53	21	21	2.6	NM	2.6	7029	64	13330	1.8	5
58	Baxter International	135	10784	39	12	12	2.7	18	2.2	8921	591	9340	14.6	5
59	American Express	136	10742	23	-11	-11	1.5	15	4.4	NA	789	146400	10.3	5
60	Southern Co.	138	10653	34	24	24	1.5	12	6.5	8050	876	19860	13.3	5
61	Motorola	141	10576	80	12	12	2.3	23	1.0	11341	454	9375	10.1	5
62	General Mills	144	10484	64	8	8	9.4	21	2.3	7153	438	3902	44.2	5
63	Schering-Plough	145	10472	52	2	2	7.8	16	3.0	3616	646	4013	47.7	5
64	Berkshire Hathaway (6)	146	10429	9100	4	4	1.4	29	0.0	3106	440	14462	4.9	5
65	Intel	148	10196	50	10	-10	2.3	13	0.0	4479	819	6293	17.7	5
66	Time Warner	159	9831	106	-8	-8	1.2	26	0.9	12021	-99	24890	4.5	5
67	American Brands	160	9788	48	13	13	2.4	12	3.6	14064	806	15115	19.7	5
68	Marion Merrell Dow	162	9756	33	-6	-6	5.8	15	3.0	2851	585	2762	38.0	5
69	H. J. Heinz	163	9753	38	-1	-1	4.3	16	2.9	7129	558	5541	27.3	5
70	Kmart	165	9714	48	-1	-1	1.6	12	3.8	34580b	859b	15999b	13.7	5
71	Dun & Bradstreet	167	9641	54	10	10	4.5	19	4.2	4643	509	4777	23.5	5
72	SCEcorp	170	9568	44	10	10	1.7	14	6.3	7502	703	16830	12.2	5
73	Banc One	175	9422	47	32	32	2.3	15	2.2	NA	530	46290	15.0	5
74	Toys 'R' Us	179	9258	32	2	2	3.8	27	0.0	6124b	340b	4548b	13.9	5
75	Norfolk Southern	181	9219	65	34	34	2.3	17	2.8	4451	527	10148	13.6	5
76	Kimberly-Clark	182	9215	58	19	19	3.7	17	2.9	6777	528	5651	21.7	5
77	Campbell Soup	187	8887	34	-13	-13	5.2	19	2.3	6204	401	4116a	28.1	5
78	Chemical Banking	190	8760	37	71	71	1.4	NM	3.3	NA	154	139000	1.0	5
79	Syntex	193	8597	38	-6	-6	8.5	18	2.7	1817	424	2273	46.4	5
80	Warner-Lambert	195	8513	63	-12	-12	7.3	15	3.2	5059	559	3602	49.9	5
81	MCI Communications	198	8428	32	2	2	2.8	16	0.3	8433	551	8834	17.9	5
82	Archer Daniels Midland	199	8407	26	20	20	2.0	16	0.4	8468	467	6260	12.5	5
83	International Paper	200	8382	71	-0	-0	1.4	21	2.4	12703	399	14941	6.4	5
84	Texas Utilities	203	8307	39	8	8	1.3	LOSS	7.8	4893	-410	18790	NEG	5
85	Colgate-Palmolive	204	8290	53	28	28	5.4	62	2.0	6060	125	4511	8.8	5
86	Rhône-Poulenc Rorer	208	8188	59	40	40	8.2	24	0.9	3824	327	4116	34.3	5
87	Monsanto	210	8082	66	-4	-4	2.2	14	3.4	8864	621	9227	16.3	5
88	Amgen	211	8044	61	50	50	15.1	73	0.0	682	98	866	20.8	5
89	Allied-Signal	212	8013	58	94	94	2.7	18	1.7	11831	388	10382	15.2	5
90	Capital Cities/ABC	222	7785	465	3	3	2.3	24	0.0	5382	375	6696a	9.7	5
91	Tele-Communications	224	7744	19	16	16	5.4	LOSS	0.0	3827	-102	13010	NEG	5
92	Loews	227	7700	114	12	12	1.4	8	0.9	13620	904	39200	16.1	5
93	J. C. Penney	229	7664	66	13	13	1.8	NM	4.0	17295b	528b	12325	1.1	5
94	Limited	233	7573	21	-30	-30	4.9	19	1.3	6149b	403b	2872	25.6	5
95	Novell	234	7569	54	NA	NA	12.6	39	0.0	640	162	726	32.2	5
96	Federal Home Loan Mortgage (6)	247	7270	40	37	37	2.7	13	1.9	4219	555	46860	21.3	5
97	ITT	248	7240	63	2	2	0.9	11	2.9	20421	817	53870	8.2	5
98	PPG Industries	253	7140	67	24	24	2.7	28	2.7	5673	201	6056	9.7	5
99	General Re	255	7122	82	-14	-14	2.2	13	2.2	2249	657	11030a	16.9	5
100	Apple Computer	257	7074	60	26	26	4.0	22	0.8	6309	310	3494	18.0	5
101	Commonwealth Edison	258	7072	33	-8	-8	1.3	88	9.0	6276	95	17370	1.5	5
102	Xerox	266	6917	75	29	29	1.4	19	4.0	17830	454	31500a	7.3	5
103	Duke Power	267	6909	34	22	22	1.7	14	5.1	3817	584	10471	12.3	5
104	Weyerhaeuser	269	6877	34	12	12	2.0	31	3.5	8702	182	16928	6.3	5
105	Gannett	270	6846	48	7	7	4.4	23	2.6	3382	302	3684	19.3	5
106	Corning	271	6843	37	20	20	3.6	38	1.6	3259	311	3853	9.4	5
107	CSX	273	6821	67	43	43	2.1	LOSS	2.3	8636	-76	12800	NEG	5
108	May Department Stores	276	6787	55	-8	-8	2.7	14	3.0	10615b	515b	8295	20.2	5
109	USX-Marathon Group (5) (6)	278	6716	24	8	8	1.9	LOSS	5.9	13975	-71	11644	NEG	5
110	American TV & Communications	278	6698	61	44	44	9.7	42	0.0	1220	161	2098a	23.3	5
111	Phillips Petroleum	279	6657	26	-7	-7	2.4	LOSS	4.4	13259	98	11473	NEG	5
112	Aluminum Co. of America	281	6605	78	9	9	1.3	NM	2.1	9884	63	11179	0.8	5
113	Occidental Petroleum	283	6601	22	5	5	1.5	21	4.5	10096	379	16120	7.2	5
114	AMP	286	6587	62	17	17	3.4	25	2.4	3095	259	3006	13.6	5

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THE GLOBAL 1000

RANK	COMPANY	1991 RANK	1991 SALES \$ MIL.	1991 PROFIT \$ MIL.	1991 ASSETS \$ MIL.	1991 RETURN ON EQUITY %	1991 RANK	1991 SALES \$ MIL.	1991 PROFIT \$ MIL.	1991 ASSETS \$ MIL.	1991 RETURN ON EQUITY %
115	Unocal	115	6449	27	10898	0.6	115	6449	27	10898	0.6
116	Consolidated Edison of New York	116	6449	27	10898	0.6	116	6449	27	10898	0.6
117	United Technologies	117	6449	27	10898	0.6	117	6449	27	10898	0.6
118	Citicorp	118	6449	27	10898	0.6	118	6449	27	10898	0.6
119	Public Service Enterprise Group	119	6449	27	10898	0.6	119	6449	27	10898	0.6
120	CPC International	120	6449	27	10898	0.6	120	6449	27	10898	0.6
121	ConAgra	121	6369	30	19505	17.3	121	6369	30	19505	17.3
122	UST	122	6336	30	130	53.7	122	6336	30	130	53.7
123	Automatic Data Processing	123	6289	46	17792	23.6	123	6289	46	17792	23.6
124	Upjohn	124	6173	10	3426	31.1	124	6173	10	3426	31.1
125	Student Loan Marketing Assn.	125	6099	11	NA	36.9	125	6099	11	NA	36.9
126	Caterpillar	126	6099	11	10182	NEG	126	6099	11	10182	NEG
127	Food Lion	127	6044	235	6439	24.3	127	6044	235	6439	24.3
128	FPL Group	128	6044	235	5249	9.0	128	6044	235	5249	9.0
129	Raytheon	129	5936	45	9274	4.1	129	5936	45	9274	4.1
130	Electronic Data Systems	130	5916	31	7029	NA	130	5916	31	7029	NA
131	Dominion Resources	131	5916	31	3786	46.1	131	5916	31	3786	46.1
132	Chubb	132	5916	31	367	56.1	132	5916	31	367	56.1
133	American Electric Power	133	5836	32	5047	11.5	133	5836	32	5047	11.5
134	PacifiCorp	134	5836	32	4007	4.8	134	5836	32	4007	4.8
135	Westinghouse Electric	135	5766	17	11794	NEG	135	5766	17	11794	NEG
136	Georgia-Pacific	136	5766	17	10622	NEG	136	5766	17	10622	NEG
137	Reader's Digest Association	137	5680	27	2345	3.3	137	5680	27	2345	3.3
138	Cooper Industries	138	5680	27	393	1.1	138	5680	27	393	1.1
139	Philadelphia Electric	139	5680	27	3976	1.7	139	5680	27	3976	1.7
140	Marsh & McLennan	140	5680	27	306	29.7	140	5680	27	306	29.7
141	Houston Industries	141	5680	27	4444	9.8	141	5680	27	4444	9.8
142	PNC Financial	142	5680	27	390	13.1	142	5680	27	390	13.1
143	Paramount Communications	143	5520	17	3698	3.8	143	5520	17	3698	3.8
144	Burlington Resources	144	5486	42	1754	6.6	144	5486	42	1754	6.6
145	American Cyanamid	145	5486	42	4986	14.0	145	5486	42	4986	14.0
146	Wachovia	146	5486	42	230	9.2	146	5486	42	230	9.2
147	Rockwell International	147	5486	42	1007	12.4	147	5486	42	1007	12.4
148	Chrysler	148	5486	42	24200	NEG	148	5486	42	24200	NEG
149	Air Products & Chemicals	149	5190	27	243	14.1	149	5190	27	243	14.1
150	Digital Equipment	150	5190	27	13411	NEG	150	5190	27	13411	NEG
151	Central & South West	151	5190	27	3047	17.1	151	5190	27	3047	17.1
152	CNA Financial	152	5190	27	310	12.1	152	5190	27	310	12.1
153	Albertson's	153	5190	27	2566	18.7	153	5190	27	2566	18.7
154	U. S. Surgical	154	5190	27	461a	36.9	154	5190	27	461a	36.9
155	Ralston Purina	155	5190	27	4632	45.6	155	5190	27	4632	45.6
156	American General	156	5190	27	36120	11.1	156	5190	27	36120	11.1
157	Pitney Bowes	157	5190	27	3332	18.5	157	5190	27	3332	18.5
158	Honeywell	158	5190	27	6193	19.9	158	5190	27	6193	19.9
159	Goodyear Tire & Rubber	159	5190	27	10917	7.1	159	5190	27	10917	7.1
160	SunTrust Banks	160	5190	27	371	15.0	160	5190	27	371	15.0
161	Tenneco	161	4949	40	13662	NEG	161	4949	40	13662	NEG
162	Merrill Lynch	162	4949	40	696	16.1	162	4949	40	696	16.1
163	McCaw Cellular Communications	163	4949	40	8717	NEG	163	4949	40	8717	NEG
164	Rubbermaid	164	4949	40	1243	19.6	164	4949	40	1243	19.6
165	Sprint	165	4949	40	8780	15.1	165	4949	40	8780	15.1
166	Norwest	166	4949	40	38500	17.9	166	4949	40	38500	17.9
167	Entergy	167	4949	40	491	11.6	167	4949	40	491	11.6
168	Dayton Hudson	168	4949	40	9485b	12.4	168	4949	40	9485b	12.4
169	Detroit Edison	169	4949	40	3592	14.6	169	4949	40	3592	14.6
170	Gap	170	4821	34	2519b	50.0	170	4821	34	2519b	50.0
171	Melville	171	4821	34	4763	15.4	171	4821	34	4763	15.4
172	Bankers Trust New York	172	4821	34	607	22.4	172	4821	34	607	22.4
173	First Union	173	4767	36	432	1.7	173	4767	36	432	1.7
174	Great Lakes Chemical	174	4767	36	7235	14.8	174	4767	36	7235	14.8
175	Borden	175	4767	36	245	NEG	175	4767	36	245	NEG
176	AMR	176	4767	36	1354b	NEG	176	4767	36	1354b	NEG
177	Sysco	177	4767	36	171	14.1	177	4767	36	171	14.1
178	Medtronic	178	4767	36	171	22.6	178	4767	36	171	22.6
179	Aetna Life & Casualty	179	4767	36	171	7.8	179	4767	36	171	7.8
180	Dillard Department Stores	180	4767	36	484	13.4	180	4767	36	484	13.4
181	Times Mirror	181	4767	36	3624	5.0	181	4767	36	3624	5.0
182	Enron	182	4491	42	242	2.1	182	4491	42	242	2.1
183	R. R. Donnelley & Sons	183	4491	42	1412	1.1	183	4491	42	1412	1.1
184	Arco Chemical	184	4491	42	1412	1.1	184	4491	42	1412	1.1
185	Nike	185	4367	38	1712	30.2	185	4367	38	1712	30.2
186	Masco	186	4342	29	3121	3.9	186	4342	29	3121	3.9
187	Newmont Gold	187	4326	13	126	1.1	187	4326	13	126	1.1
188	Viacom (6)	188	4313	1	47	1.1	188	4313	1	47	1.1
189	Medco Containment Services	189	4288	31	1343	1.1	189	4288	31	1343	1.1
190	Carolina Power & Light	190	4288	31	7523	1.1	190	4288	31	7523	1.1
191	Wells Fargo	191	4173	16	53550	NEG	191	4173	16	53550	NEG



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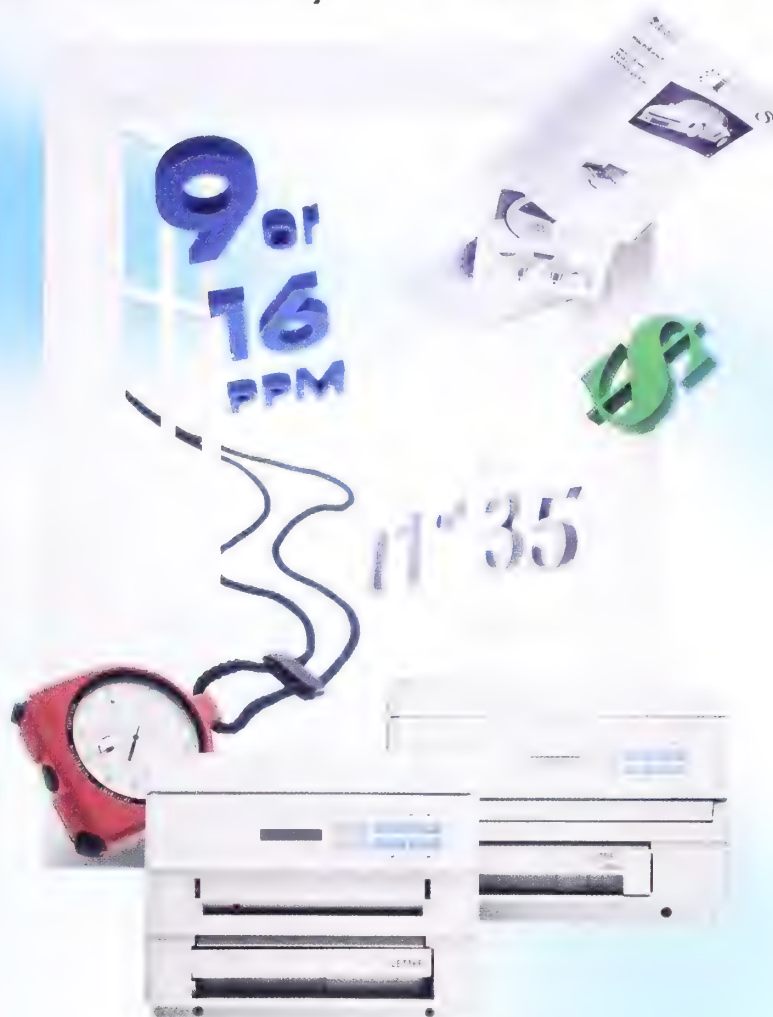


THE GLOBAL 1000

COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL.	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$) (LOCAL)		PRICE/BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL.	PROFITS U.S. \$ MIL.	ASSETS U.S. \$ MIL.	RETURN ON EQUITY %
192	Primerica	471	4169	38	21	21	1.3	7	1.3	NA	479	21560	17.5
193	Quaker Oats	475	4134	56	5	5	4.8	17	3.1	5491	236	3016	27.5
194	International Flavors & Fragrances	478	4103	108	30	30	4.3	24	2.5	1017	169	1217	17.9
195	Walgreen	481	4092	33	2	2	3.8	20	1.6	6733	195	2094	19.1
196	Costco Wholesale (S)	486	4063	35	17	17	5.5	41	0.0	5305	85	1141	13.4
197	Carnival Cruise Lines	492	4025	29	NA	NA	3.4	15	2.0	1405	85	2650	22.8
198	Pennsylvania Power & Light	503	3943	26	16	16	1.7	13	6.2	2560	348	7935	13.4
199	Burlington Northern	504	3942	45	29	29	3.3	LOSS	2.7	4599	-306	6324	NEG
200	Chase Manhattan	508	3881	28	43	43	0.9	9	4.3	NA	520	98200	10.5
201	Morgan Stanley Group	509	3871	51	16	16	2.0	9	1.9	NA	475	53530a	22.6
202	Freeport-McMoRan Copper & Gold (6)	513	3847	42	74	74	23.7	40	2.8	468	102	1158	59.4
203	U. S. Healthcare	517	3832	54	NA	NA	11.0	24	0.8	1709	151	758	45.9
204	Turner Broadcasting System (6)	518	3824	22	49	49	NEG	NM	0.1	1480	43	2397	NEG
205	Consolidated Rail	523	3787	93	64	64	1.6	LOSS	1.9	3252	-207	7096	NEG
206	Deluxe	528	3762	45	5	5	5.6	20	2.9	1476	183	924a	28.2
207	Chemical Waste Management	529	3762	18	-13	-13	4.1	35	1.1	1358	101	2026	11.6
208	Avon Products	531	3742	52	18	18	14.9	18	2.7	3593	211	1729	83.2
209	Amerada Hess	532	3727	46	-15	-15	1.2	LOSS	1.3	6416	84	9057a	NEG
210	Genuine Parts	536	3719	33	16	16	3.3	18	3.1	3435	208	1467	18.7
211	Cigna	543	3673	52	-1	-1	0.7	7	5.9	18164a	453	63690a	9.9
212	Union Carbide	544	3669	29	44	44	1.6	LOSS	3.5	4877	116	6826	NEG
213	Hershey Foods	545	3664	41	-7	-7	2.7	16	2.4	2899	220	2342	17.2
214	St. Paul	546	3656	72	12	12	1.2	7	3.8	4352	405	12980	16.5
215	Reynolds Metals	547	3651	61	-6	-6	1.2	26	2.9	5730	154	6685	4.8
216	Union Electric	550	3638	36	19	19	1.7	12	6.3	2097	322	5733	14.5
217	Rohm & Haas	553	3612	56	30	30	2.8	21	2.2	2763	163	2897	13.7
218	Salomon	561	3579	32	-10	-10	1.1	8	2.0	9175	507	97400	13.8
219	Woolworth	564	3566	28	8	8	1.5	LOSS	4.1	9914b	66b	4305	NEG
220	Fleet Financial Group	566	3552	30	23	23	1.7	39	2.7	NA	98	32510a	4.4
221	Illinois Tool Works	568	3545	64	0	0	2.9	20	1.4	2640	181	2257	14.8
222	Fluor	570	3538	44	-13	-13	3.5	25	0.9	6742	149	2422	13.7
223	NBD Bancorp	571	3530	29	11	11	1.6	12	3.4	NA	293	29510	13.8
224	Deere	575	3497	46	-18	-18	1.2	37	4.4	7055	100	11649	3.3
225	Consolidated Natural Gas	579	3471	40	-6	-6	1.8	19	4.8	2607	169	5011	9.4
226	LIN Broadcasting	583	3444	67	-1	-1	LOSS	LOSS	0.0	468	-170	2799	NEG
227	Alza	586	3439	47	43	43	10.4	47	0.0	162	-62	581	21.9
228	Ethyl	588	3431	29	-3	-3	2.8	16	2.1	2575	207	7905	17.8
229	Humana	589	3421	22	37	-37	1.7	10	4.2	5865	355	4427	17.6
230	Union Camp	592	3404	49	5	5	1.8	31	3.2	2967	125	4698	5.6
231	Alltel (6)	593	3401	39	-7	-7	2.9	17	3.8	1748	189	2788	17.4
232	H&R Block (6)	598	3378	32	18	18	6.2	23	2.8	1163	140	1036	27.6
233	TRW	599	3373	55	30	30	2.0	28	3.3	7913	116	5635	7.2
234	Dow Jones	604	3350	33	15	15	2.3	29	2.3	1725	104	2471	8.0
235	Society	605	3347	59	NA	NA	1.7	11	3.4	NA	163	15400	15.8
236	Transamerica	607	3312	43	24	24	1.2	29	4.7	NA	99	33680	4.1
237	Baker Hughes	619	3270	24	-17	-17	2.1	23	1.9	2828	173	2906	9.0
238	Winn-Dixie Stores	623	3239	42	8	8	3.8	18	2.9	10074	171	1817	21.4
239	Genentech	625	3228	29	1	1	3.4	NM	0.0	516	44	1231	2.9
240	Geico	626	3226	227	20	20	2.7	17	1.1	1888	196	4086	16.3
241	Knight-Ridder	631	3201	60	6	6	2.8	18	2.3	2237	132	2333	15.5
242	Browning-Ferris Industries	634	3172	21	-30	-30	2.8	14	3.3	3183	263	3656	19.9
243	Scott Paper	638	3162	43	5	-5	1.6	25	1.9	4980	113	6493	6.5
244	Ingersoll-Rand	639	3157	61	17	17	1.9	21	2.3	3586	151	2979	9.1
245	Ohio Edison	642	3147	21	10	10	1.3	13	7.3	2359	265	7812	10.4
246	Phelps Dodge	644	3120	90	37	37	1.7	13	3.7	2434	273	3051	13.4
247	Wheelabrator Technologies	645	3115	27	0	0	2.8	18	0.3	1173	126	2744	15.4
248	Halliburton	647	3101	29	-35	-35	1.4	34	3.4	7019	110	5017	4.2
249	Duracell International	648	3097	28	1.4	1.4	4.1	24	0.0	1524	41	2054	17.3
250	Texas Instruments	649	3090	38	-4	-4	1.9	LOSS	1.9	6784	-169	5009	NEG
251	Dresser Industries	650	3089	23	2	2	1.8	22	2.6	4670	140	3250	7.9
252	Textron	651	3088	36	3	3	1.1	10	3.1	7840	300	15737	16.4
253	Safeco	652	3084	49	19	19	1.4	11	3.3	1969	260	11910	13.0
254	Sun	657	3037	29	-13	-13	0.9	LOSS	6.3	11930	-132	7143	NEG
255	United Healthcare	658	3014	89	NA	NA	8.8	37	0.0	847	75	574	23.7
256	W. R. Grace	659	3013	34	-3	-3	1.5	15	4.1	6049	219	6007	10.3
257	McGraw-Hill	660	3004	61	-3	-3	3.0	20	3.7	1943	148	2525	15.0
258	Liz Claiborne	666	3000	37	-23	-23	4.4	14	1.1	2007	223	985a	31.3
259	Bausch & Lomb	663	2989	50	16	16	3.6	20	1.6	1520	149	1770	18.4
260	Baltimore Gas & Electric	665	2965	23	14	14	1.3	13	6.2	2459	263	7079	9.8
261	Roadway Services	668	2949	75	40	40	3.3	21	1.7	3177	127	1489	15.7
262	Newmont Mining	669	2944	43	16	16	14.4	43	1.4	623	72	818	33.7
263	Bank of New York	670	2937	42	35	35	1.2	13	3.6	NA	122	45390a	9.3
264	Freeport-McMoRan	677	2900	40	10	10	7.7	47	6.3	1579	89	3566	16.3
265	Crown Cork & Seal	678	2892	100	37	37	2.7	22	0.0	3807	128	2982	12.2
266	General Public Utilities	682	2867	26	11	11	1.2	13	6.2	3372	218	7405	9.6
267	Whirlpool	684	2862	41	23	23	1.9	16	2.7	6770	170	6445	11.9
268	Torchmark	686	2853	58	6	6	3.1	12	2.8	NA	246	6161	26.3

Footnotes on page 57

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Processor	68000	68000	RISC/8220	RISC/8220
Fonts	14 HP Fonts	17 or 35 Scalable	35 Scalable	35 Scalable
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THE GLOBAL 1000

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269	Newell (6)	687	2828	37	5	5	3.8	20	1.6	1119	112	1040	18.9
270	Temple Inland	688	2828	52	11	11	1.8	22	1.9	1893a	232a	7835a	8.5
271	Tribune	692	2823	44	-8	-8	5.6	24	2.2	2035	142	2795	23.6
272	Northeast Utilities	694	2817	24	17	17	1.5	12	7.5	2754	237	6782	12.9
273	Delta Air Lines	695	2816	57	-24	-24	1.1	LOSS	2.1	9171	-324	8411	NEG
274	UAL	698	2812	118	-23	-23	1.8	LOSS	0.0	11662	-332	9876	NEG
275	Hillenbrand Industries (6)	701	2805	39	70	70	5.7	29	0.9	1199	89	1532	19.5
276	Wm. Wrigley Jr. (6)	702	2805	72	13	13	5.8	21	2.3	1149	129	625	27.8
277	Aon	706	2790	43	5	5	1.6	11	3.9	1559a	242	10432a	14.4
278	Coastal	708	2788	27	-26	-26	1.4	44	1.5	9549	96	9490	3.1
279	Eaton	711	2777	82	36	36	2.4	25	2.7	3381	87	3087	9.5
280	State Street Boston (6)	714	2766	37	58	58	3.3	24	1.1	1358	139	15046	13.8
281	Morton International (6)	716	2753	57	2	2	2.4	19	1.7	1906	138	1926	12.2
282	Lockheed	719	2742	45	7	7	1.1	9	4.7	9809	308	6617	12.7
283	Centel	725	2723	32	3	3	2.3	23	2.8	1181	112	3492	10.0
284	Washington Post	727	2715	230	8	8	2.9	22	1.8	1380	119	1488	13.6
285	W. W. Grainger	728	2714	51	15	15	3.2	22	1.3	2077	128	1217	14.6
286	General Dynamics	730	2709	65	68	68	1.4	11	2.5	8751	234	6207	12.9
287	Potomac Electric Power	733	2694	24	15	15	1.6	13	6.6	1552	210	5854	12.0
288	Fruit of the Loom (6)	734	2693	36	132	132	3.9	20	0.0	1628	111	2115	19.8
289	Sun Microsystems	735	2686	28	-24	-24	2.2	14	0.0	3221	190	2326	15.4
290	Cisco Systems (6)	737	2685	46	184	184	15.5	41	0.0	183	43	154	37.6
291	First Fidelity Bancorporation (6)	740	2673	38	35	35	1.6	11	3.2	2778	221	30215	13.6
292	VF	743	2669	46	49	49	2.8	15	2.3	2952	161	2127	18.5
293	National City (6)	744	2664	44	14	14	1.5	11	4.3	2588	231	24170	13.2
294	Champion International	747	2660	29	3	3	0.7	LOSS	0.7	4786	40	8656	NEG
295	Lincoln National	748	2657	58	18	18	1.1	10	5.1	6169	208	27600a	11.6
296	CoreStates Financial	750	2650	50	26	26	1.7	12	4.0	NA	228	21620	14.8
297	Becton, Dickinson	751	2647	70	10	10	2.0	15	1.7	2172	190	2780	13.6
298	Long Island Lighting	752	2645	24	4	4	1.2	12	7.2	2549	306	9543	10.4
299	San Diego Gas & Electric (6)	754	2641	23	23	23	1.9	13	6.2	1789	208	3748	14.5
300	Computer Associates International	755	2639	15	49	49	2.4	16	0.7	1348	159	1599	15.4
301	Wisconsin Energy	757	2635	39	18	18	1.8	14	5.0	1539	189	3476	13.1
302	Tambrands	760	2627	65	19	19	11.8	32	2.1	661	79	390	37.2
303	Nordstrom	764	2609	32	-31	31	2.7	20	1.0	3180b	136b	2042b	13.7
304	Reebok International	766	2604	29	27	27	3.2	11	1.0	2734	235	1430	28.0
305	Martin Marietta	773	2576	52	-13	-13	1.4	8	2.9	6075	313	3896	17.5
306	Clorox	774	2574	48	17	17	3.3	37	3.5	1646	53	1603	8.8
307	Hasbro	777	2560	30	NA	NA	2.7	60	0.7	2141	41	1950	4.5
308	Tyson Foods (6)	778	2560	19	-16	-16	2.9	17	0.2	3922	146	2646	17.0
309	Sante Fe Pacific	779	2559	12	38	38	2.1	21	0.8	2360	96	5220	10.4
310	Northern States Power	781	2556	41	20	20	2.1	14	5.9	2201	207	4751	14.5
311	Florida Progress (6)	782	2555	46	16	16	1.6	15	6.2	2075	191	5025	10.9
312	UNUM (6)	783	2552	38	22	22	1.7	12	1.7	2421	205	10668	14.8
313	Golden West Financial	784	2548	40	5	5	1.8	10	0.5	NA	239	24300	17.7
314	CBS	785	2538	192	17	17	7.2	29	0.5	3035	97	2799	24.6
315	Fifth Third Bancorp (6)	787	2534	43	29	29	2.8	18	2.1	885	138	8826	15.9
316	Imcera Group	788	2529	34	2	2	2.4	22	1.2	1634	97	2250	10.9
317	Hercules	789	2527	54	35	35	1.3	18	4.1	2928	138	3467	7.4
318	National Medical Enterprises	791	2512	14	39	39	1.4	9	3.2	3806	277	4060	15.6
319	Barnett Banks	793	2503	34	15	15	1.2	17	3.8	NA	124	32720	7.0
320	Niagara Mohawk Power	794	2501	18	21	21	1.2	13	4.4	3383	243	8241	9.3
321	First Interstate Bancorp	796	2495	40	-2	-2	0.8	LOSS	3.0	NA	-288	48920	NEG
322	Capital Holding	799	2480	54	10	10	1.5	10	2.5	1056	250	18870	15.1
323	Sherwin-Williams	800	2476	28	12	12	2.9	18	1.6	2541	128	1612	16.2
324	U. S. Bancorp (6)	806	2464	25	9	9	1.7	13	3.0	2014	196	18875	13.5
325	Nalco Chemical	811	2455	35	20	20	4.6	20	2.4	1237	135	1324	23.8
326	AutoZone (6)	813	2441	35	133	133	10.2	47	0.0	818	44	399	21.9
327	National Health Laboratories	815	2439	23	NA	NA	6.8	20	1.2	604	104	411	33.3
328	Dover	816	2436	41	-7	-7	3.1	18	2.1	2196	128	1468a	16.8
329	Centerior Energy	818	2435	17	1	-1	0.9	11	9.2	2560	237	12042	7.9
330	American Stores	819	2435	35	-16	-16	1.6	11	2.0	20823b	240b	6955b	14.7
331	Allegheny Power System	820	2433	45	13	13	1.4	12	7.1	2282	194	4855	12.0
332	Sigma-Aldrich (6)	825	2425	49	17	17	5.5	29	0.5	589	80	597	18.8
333	Westvaco	829	2402	37	6	6	1.4	16	3.0	2301	137	3461	8.8
334	Gerber Products	831	2388	64	0	0	6.1	19	2.3	1179	113	827	32.4
335	New York Times	835	2374	30	31	31	2.2	42	1.9	1703	47	2128	5.3
336	KeyCorp (6)	838	2363	33	41	41	1.8	12	3.1	2283	188	23156	14.5
337	AFLAC	842	2360	29	26	26	2.6	15	1.5	3283	147	10144	17.1
338	Louisiana Pacific	848	2339	65	49	49	1.9	23	1.8	1702	56	2107	8.3
339	Pioneer Hi-Bred International	849	2334	77	44	44	3.4	23	1.5	1125	104	1086	14.9
340	Circus Circus Enterprises (6)	856	2314	41	5	5	7.1	22	0.0	806	103	783	33.0
341	Republic New York	859	2302	44	6	6	1.5	11	2.3	NA	227	31220	13.6
342	Hilton Hotels	860	2291	48	-2	-2	2.5	25	2.5	1113	84	1927a	10.1
343	Lubrizoil	865	2278	66	19	19	2.9	17	2.5	1476	124	1172	16.6
344	Great Western Financial	867	2271	18	-8	-8	1.0	8	5.2	NA	298	39600	12.2

Footnotes on page 57

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THE GLOBAL 1000

COUNTRY/ RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. \$ MIL	PRICE PER SHARE U.S. \$	% CHANGE FROM 1991 (U.S. \$) (LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. \$ MIL	PROFITS U.S. \$ MIL	ASSETS U.S. \$ MIL	RETURN ON EQUITY %
345	First Chicago	870	2262	33	16 16	0.9	27	3.7	NA	116	48960	3.5
346	Compaq Computer	872	2252	27	-30 -30	1.2	35	0.0	3271	131	2827	3.3
347	Blockbuster Entertainment (6)	974	2249	14	56 56	4.6	23	0.1	868	94	804	20.4
348	Nucor (6)	879	2236	104	30 30	3.1	33	0.5	1465	65	1182	9.4
349	Teco Energy (6)	886	2223	39	12 12	2.5	15	4.7	1154	149	2834	16.2
350	Cincinnati Financial (6)	889	2206	45	19 19	1.5	14	2.3	1161	146	3436	10.7
351	Federal Express	896	2186	41	2 2	1.3	LOSS	0.0	7688	6	5672	NEG
352	Mead	898	2173	37	1 1	1.5	28	2.7	4579	76	3986	5.2
353	Citizens Utilities (6)	903	2162	39	51 51	3	19	0.0	548	112	1680	15.8
354	Comcast	904	2162	17	3 3	LOSS	LOSS	0.8	721	-156	2456a	NEG
355	Tandy	905	2156	28	-18 -18	1.2	13	2.2	4562	206	3078	9.6
356	E.W. Scripps (6)	917	2126	29	33 33	3.1	28	1.4	1300	65	1708	11.0
357	Brown-Forman (6)	922	2117	74	-12 -12	2.9	14	3.3	1119	145	1083	19.9
358	Jefferson-Pilot	925	2116	41	40 40	1.4	13	2.7	658	153	4925	10.3
359	New England Electric System	927	2112	33	12 12	1.5	12	6.4	2094	180	4450	11.9
360	Interpublic Group	929	2106	57	NA NA	3.6	21	1.6	1635	95	2785	17.0
361	Cooper Tire & Rubber (6)	932	2101	51	84 84	4.6	24	0.6	1001	79	671	19.2
362	Mellon Bank	941	2071	41	35 35	1.3	8	3.5	NA	280	29360	14.8
363	Northern Trust (6)	947	2063	60	55 55	2.8	17	1.6	1260	127	13193	16.7
364	Travelers	954	2043	20	-19 -19	0.5	8	8.0	7302	307	55360a	6.4
365	Mattel	956	2039	34	NA NA	4.7	18	0.6	1622	118	1061	25.8
366	Paccar (6)	957	2038	60	21 21	2	37	1.7	2339	40	2738	5.4
367	Southern New England Telecomm.	958	2035	33	0 0	1.7	15	5.4	1633	126	3539	11.2
368	Kerr-McGee	960	2032	42	-1 -1	1.4	24	3.6	3274	102	3421	5.8
369	St. Jude Medical	961	2030	43	NA NA	5.9	23	0.9	210	84	375	25.4
370	H. F. Ahmanson	962	2030	18	-11 -11	0.8	10	5.0	NA	246	47230	7.6
371	MBIA (6)	965	2024	53	52 52	1.7	13	1.3	269	145	2278	13.5
372	Premier Industrial (6)	968	2021	35	26 26	6.1	27	1.4	637	75	349	23.1
373	First Bank System	970	2013	26	32 32	2.0	11	3.5	NA	190	19000a	17.3
374	Biomet (6)	972	2011	18	22 22	9.3	41	0.0	210	39	211	22.6
375	Maytag	973	2007	19	18 18	2.0	12	2.6	2971	79	2535	16.9
376	Southwest Airlines	974	2001	43	68 68	2.9	39	0.2	1314	27	1837	7.5
377	Pall (6)	975	2000	23	-10 -10	3.9	24	1.6	657	80	774	16.4
378	Pennzoil	984	1971	49	-30 -30	1.7	LOSS	6.2	2685	-42	5231	NEG
379	MBNA (6)	985	1968	40	24 24	3.3	13	4.4	1134	149	6009	25.9
380	McCormick (6)	986	1967	25	32 32	4.9	24	1.5	1428	81	1032	20.2
381	Oracle Systems	992	1951	15	98 98	5.9	53	0.0	1028	-12	858	11.1
382	Cincinnati Gas & Electric (6)	993	1950	34	8 8	1.2	12	7.2	1518	207	4584	10.3
383	USX-U. S. Steel Group (5) (6)	NR	1259	25	-2 -2	0.8	LOSS	4.1	4864	-507	5627	NEG

OTHER MARKETS AROUND THE WORLD

The Global 1000 ranking excludes companies from countries where foreigners' access to stock markets is still limited. Many of these companies are significant competitors, and the list below includes those companies where annual revenues for the most recent fiscal year are more than \$1 billion.

Company	Sales U.S. \$ Bil.	Profits U.S. \$ Mil.	Company	Sales U.S. \$ Bil.	Profits U.S. \$ Mil.	Company	Sales U.S. \$ Bil.	Profits U.S. \$ Mil.
SOUTH KOREA			DONG-AH CONST. IND.	1.4	21	FORMOSA CHEMICALS & FIBERS	1.1	
SAMSUNG (Trading)	13.4	20	CHEIL FOODS & CHEMICAL	1.4	15	TATUNG	1.0	
HYUNDAI (Trading)	12.3	12	SAMSUNG CONSTRUCTION	1.3	33	MEXICO		
DAEWOO (Trading)	8.4	40	DAEWOO HEAVY INDUSTRIES	1.3	25	TELEFONOS DE MEXICO	5.3	
POHANG IRON & STEEL	7.7	142	ASIA MOTORS	1.3	14	VITRO	3.0	
KOREA ELECTRIC POWER	7.5	947	KOLON INTERNATIONAL (Trading)	1.1	12	CIFRA	2.8	
HYUNDAI MOTOR	7.4	71	INCHON IRON & STEEL	1.1	41	GRUPO ALFA	2.4	
SAMSUNG ELECTRONICS	6.9	90	SAMSUNG ELECTRON DEVICES	1.1	34	VISA	2.0	
YUKONG	5.3	32	HANYANG CHEMICAL	1.1	22	FEMSA	1.9	
GOLDSTAR	4.8	24	SSANYONG CEMENT	1.1	2	GRUPO CARSO	1.8	
LUCKY-GOLDSTAR INTERNATIONAL	4.7	5	GOLDSTAR CABLE	1.1	12	CEMENTOS MEXICANOS	1.7	
HYUNDAI MOTOR SERVICE	3.6	37	KYUNGIN ENERGY	1.0	6	GIGANTE	1.7	
KIA MOTORS	3.6	21	TAIWAN			GRUPO DESC	1.6	
HYUNDAI ENG. & CONST.	3.3	33	CATHAY LIFE INSURANCE	5.1	186	COMERCIAL MEXICANA	1.4	
SUNKYONG (Trading)	3.1	11	CHINA STEEL	2.4	587	BIMBO	1.2	
SSANYONG (Trading)	2.7	1	NAN YA PLASTICS	2.4	235	CORPORACION MEXICANA DE AVIACION	1.0	
KOREAN AIR	2.6	39	FIRST COMMERCIAL BANK	2.3	187	BRAZIL		
LUCKY (Petrochemicals)	2.6	58	HUA NAN COMMERCIAL BANK	2.2	196	PETROBRAS	13.9	
SSANYONG OIL REFINING	2.4	53	CHANG HWA COMMERCIAL BANK	1.9	158	COMPANHIA VALE DO RIO DOCE	2.3*	
DAELIM INDUSTRIAL	2.2	12	FORMOSA PLASTICS	1.2	174	VARIG AIRLINES	2.0	
DAEWOO ELECTRONICS	2.1	18	EVERGREEN MARINE (TAIWAN)	1.2	91	PETROLEO IPIRANGA	1.1	
HYOSUNG (Trading)	1.9	1						

DATA: HANSHIN SECURITIES CO. MEXICAN STOCK EXCHANGE, COMPANY REPORTS BW

* Sales in U.S. \$

KEY TO INDUSTRY CODES Left-hand digit represents broad economic sector as defined by Morgan Stanley Capital International. Right-hand digit is industry classification code within each economic sector.

- | | | | |
|------------------------------------|--|-------------------------------------|------------------------------------|
| 1. ENERGY | 32 Construction & housing | 44 Food & household products | 57 Transportation-road & rail |
| 11 Energy sources | 33 Data processing & reproduction | 45 Health & personal care | 58 Transportation-shipping |
| 12 Utilities-electrical & gas | 34 Electrical & electronics | 46 Recreation, other consumer goods | 59 Wholesale & international trade |
| 2. MATERIALS | 35 Electronic components & instruments | 47 Textiles & apparel | 6. FINANCE |
| 21 Metals-ferrous | 36 Energy equipment & services | 5. SERVICES | 61 Banking |
| 22 Metals-nonferrous | 37 Industrial components | 51 Publishing & publishing | 62 Financial services |
| 23 Forest products & paper | 38 Machinery & engineering | 52 Business & public services | 63 Insurance |
| 24 Metals-ferrous | 39 Other machinery | 53 Leisure & tourism | 64 Real estate |
| 25 Metals-steel | 40 Other machinery | 54 Merchandising | 7. OTHER |
| 26 Metals-nonferrous | 41 Application & service industries | 55 Telecommunications | 71 Multi-industry |
| 3. CAPITAL EQUIPMENT | 42 Automobiles | 56 Transportation-air | 81 Gold mines |
| 31 Aerospace & military technology | 43 Beverages & tobacco | | |

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THE GLOBAL 1000

ALPHABETICAL LIST OF COMPANIES

The number preceding each company is its Global 1000 rank. The code following each company shows its nationality and rank within that nation. To find the statistics for a company, turn to the country listing and look for the company by its rank.

A 700 131 251 28 Abbott Laboratories (US 14) 294 630 Acer (FR 32) 827 627 434 842 808 AGA (SWE 12) 962 832 226 366 Ag Products & Chemicals (US 149) 284 Agromatic (JA 27) 485 378 414 Airon Autumum (CA 2) 91 696 113 350 820 Allegheny Power System (US 331) 30 995 Allied Irish Banks (IR 2) 137 Allied Lyons (BR 21) 212 Allied Signal (US 89) 593 281 Aluminun Co. of America (US 112) 586 Alza (US 227) 770 Amada (JA 187) 679 Amcor (AS 4) 532 572 American Bricks Resources (CA 14) 160 358 334 136 383 American General (US 156) 38 American Home Products (US 21) 64 American International Group (US 321) 819 American Stores (US 330) 9 American Telephone & Telegraph (US 7) 278 American TV & Communications (US 10) 73 Amertec (US 35) 942 AMEV (NE 5) 211 Amgen (US 88) 37 Amoco (US 20) 286 AMP (US 114) 431 AMR (US 176) 858 207 Anglo American (SA 2) 85 Andreessen Bancor (US 42) 496 706 Aon (US 277) 257 Apple Computer (US 100) 977 Arabian Co. (JA 219) 199 Archer Daniels Midland (US 82) 455 250 Aqual Group (BR 29) 514 522 228 Aram Chemical Industry (JA 61) 155 NR ASEA (SWE 3) 501 Asakaga Bank (JA 128) 65 Assicurazioni Generali (IT 1) 554 Associated British Foods (BR 62) 115 62 Atlantic Richfield (US 30) 964 307 Atrium Data Processing (US 123) 802 Atropine (ESA 1514) 813 531 Avon Products (US 208) 323 Axa (FR 17)	793 189 BASF (GE 10) 154 Bass (BR 24) 44 B&T Industries (BR 5) 663 135 Baxter International (US 58) 111 Bayer (GE 5) 426 Bayerische Hypotheken (GE 17) 827 Bayerische Vereinsbank (GE 16) NR BBC Brown Boveri (SWI 9) 123 BCE (Beli Canada Enterprises) (CA 1) 751 Becton Dickinson (US 297) 936 61 Bell Atlantic (US 29) 40 BellSouth (US 22) 900 Benetton Group (IT 12) 146 Berkshire Hathaway (US 64) 991 555 BEX (SP 8) 972 598 Black & H&R (US 232) 874 Blackbuster Entertainment (US 347) 804 Blue Circle Industries (BR 87) 272 BMW (GE 13) 373 BNP (FR 18) 328 BOC Group (BR 37) 90 Boeing (US 46) 184 Boots (BR 27) 837 Boral (AS 18) 429 939 Bouygues (FR 42) 643 Bowater Industries (BR 71) 726 Bunnings Industries (AS 16) 254 15 Busto Myers Squibb (US 9) 211 British Aerospace (BR 59) 511 British Airways (BR 57) 53 British Gas (BR 9) 32 British Petroleum (BR 4) 674 British Steel (BR 73) 13 British Telecommunications (BR 2) 70 634 Brown-Ferris Industries (US 242) 922 Brown-Forman (US 357) 110 69 BTR (BR 12) 401 BTR Nylas (AS 6) 504 Burlington Northern (US 199) 357 Burlington Resources (US 144) 928 Barmat Castor (BR 101)	7 Coca Cola (US 5) 376 Coles Myer (AS 5) 204 Colgate-Palmolive (US 85) 904 Comcast (US 354) 499 473 Commerzbank (GE 21) 407 Commonwealth Bank of Australia (AS 7) 258 Commonwealth Edison (US 101) 979 Compagnie Bancaire (FR 45) 872 Compaq Computer (US 346) 755 Computer Associates Int. (US 300) 303 ConAgra (US 121) 292 Consolidated Edison of N.Y. (US 116) 579 Consolidated Natural Gas (US 225) 523 Consolidated Rail (US 205) 344 Cooper Industries (US 138) 932 Cooper Tire & Rubber (US 361) 750 CoreStates Financial (US 296) 271 Corning (US 106) 635 Cosmo Oil (JA 159) 486 Costco Wholesale (US 196) 482 Courtauld (BR 54) 299 CPC International (US 120) 285 CRA (AS 3) 989 Credit Commercial de France (FR 47) 476 Credit Lyonnais (FR 22) 894 Creditanstalt Bankverein (AT 3) 871 Credito Italiano (IT 11) 677 Crown Cork & Seal (US 265) 331 CSI Holding (SWI 7) 709 CSR (AS 15) 273 CSX (US 107)	NR 3 Exxon (US 1) F 214 Farur (JA 55) 896 Federal Express (US 351) 247 Federal Home Loan Mortgage Assn. (US 96) 86 Federal National Mortgage Assn. (US 43) 999 Fininvest Finanziaria (IT 18) 177 Fiat Group (IT 2) 755 Fifth Third Bancorp (US 315) 970 870 First Chicago (US 345) 740 796 422 First Union (US 173) 455 Fisron (BR 48) 566 Fleet Financial Group (US 220) 683 Fletcher Challenge (NZ 1) 782 Florida Progress (US 311) 570 Fluor (US 222) 761 Fomento de Constr. y Contr. (SP 12) 909 Fondacion (IT 13) 317 Food Lion (US 127) 45 Ford Motor (US 23) 562 Forte (BR 63) 591 Foster's Brewing Group (AS 12) 321 FPL Group (US 128) 677 Freeport-McMoRan (US 264) 513 Freeport-McMoRan C&G (US 202) 734 Ford of the Loom (US 288) 21 615 Fluor Electric (JA 153) 120 Fujifilm Photo Film (JA 33) 735 Fujisawa Pharmaceutical (JA 182) 738 176 Fujitsu (JA 45) 976 844 G 270 Gannett (US 105) 412 Gap (US 170) 767 626 Geico (US 240) 384 GenCorp (AS 31) 625 Genentech (US 239) 534 General Accident Fire & Life (BR 60) 730 General Dynamics (US 286) 125 General Electric (BR 19) 5 General Electric (US 3) 144 General Mills (US 62) 31 General Motors (US 16) 682 General Public Utilities (US 266) 255 General Re (US 99) 717 Generale de Banque (BE 7) 888 Genie (MA 3) 536 Genuine Parts (US 210) 342 Georgia-Pacific (US 136) 831 Gerber Products (US 334) 129 Gilete (US 55) 955 GKN (BR 105) 12 Glaxo Holdings (BR 1) 955 Glaxo Holdings of South Africa (SA 6) 784 Golden West Financial (US 313) 688 Goodyear Tire & Rubber (US 159) 659 728 963 Granapac Group (BR 106) 56 Grand Metropolitan (BR 10) 277 Great Lakes Chemical (US 174) 424 Great Universal Stores (BR 32) 867 Great Western Financial (US 344) 882 Groupe Bruxelles Lambert (BE 8) 890 Groupe Schneider (FR 40) 488 Groupe Vetrore (FR 23) 29 GTE (US 15) 861 Guarant Royal Exchange (BR 94) 46 Guinness (BR 6) 505 H 416 Hachiyun Bank (JA 105) 753 Halden Nymcom (NO 2) 647 Halliburton (US 248) 197 Han Sang Bank (FR 3) 498 Hankyu Corp. (JA 127) 52 Hanscom Trust (BR 8) 450 Harwa (JA 115) 777 Harsco (US 307) 950 Hasegawa Kumten (JA 235) 506 Havas (FR 24) 540 163 500 Henderson Land Development (HK 14) 360 Henke (GE 15) 789 Hercules (US 317) 545 58 Hewlett-Packard (US 28) 701 Highland Industries (US 275) 880 Hissdon Holdings (BR 96) 860 Hilton Hotels (US 342) 51 Hilton Inc. (JA 13) 912 447 491 Hochtief (GE 22)	172 573 537 Hokkaido Tokai Bank (JA) 456 Hokuriku Bank (JA 118) 535 89 Home Depot (US 45) 117 Honda Motor (JA 32) 387 Honeywell (US 158) 100 Hong Kong Telecommunications 857 Hongkong & China Gas (HK 1) 415 Hongkong Electric Holdings (HK) 437 Hongkong Land Holdings (HK) 690 Hopewell Holdings (HK 17) 349 Houston Industries (US 141) 150 HSBG Holdings (HK 2) 589 221 H. J. Whampoa (HK 5) 798 Hyogo Bank (JA 191) I 568 551 Imasco (CA 13) 788 Inera Group (US 316) 67 249 914 439 632 20 Industrial Bank of Japan (JA 6) 639 Igersol-Rand (US 244) 148 Intel (US 65) 101 Business Machines (US 8) 478 200 International Paper (US 83) 277 Interne Nederlanden 929 567 Investor (SWE 7) 795 I. Amperewerke (GE 31) 525 Itecon (JA 135) 418 330 Istituto Bancario San Paolo di 812 97 Ito-Yokado (JA 23) 405 Ito-Yokado (JA 104) 28 ITT (US 97) J 142 934 377 Jane Matheron Holdings (H) 609 925 Johnson-Prior (US 358) 797 Johnsonburg Consolidated (S) 22 442 916 Jo Paper (JA 225) 507 K 223 763 Kaiser Aluminum (JA 185) 60 Kaiser Electric Power (JA 14) 386 Kaiser (JA 100) 749 617 445 231 423 822 721 99 Kellogg (US 48) 930 Kope (SI 5) 838 182 662 400 Kother (BR 42) 188 K. Nippon Railway (JA 49) 151 K. Brewery (JA 38) 631 243 K. Steel (JA 66) 803 K. Yuya (JA 192) 389 319 655 680 293 556 102 K. Saitama Bank (JA 24) 219 590 L 428 Lake Group (BR 45) 526 Lake Group (FR 27) 722 484 Lake Securities (BR 55) 693 574 790 809 233 583
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NR = not ranked

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A MIDCOURSE CORRECTION FOR NORTHWEST

Pinched finances have its co-chairmen in a cost-cutting frenzy

As general manager of Lord Fletcher's, a trendy bar and grill on Minnesota's Lake Minnetonka, Alan Bell often gets called on by local charities. They like to hit him up for free gift certificates, and usually he's happy to oblige. But the other day, Bell got a request he's still shaking his head over: Northwest Airlines Inc. came around asking for free food-and-drink chits to reward airline employees who think up cost-saving ideas. Marvels Bell: "A for-profit business asking for a handout!"

It wasn't the first time. Since buying control of the carrier in a 1989 leveraged buyout, Co-Chairmen Al Checchi and Gary Wilson have displayed a penchant for innovative fund-raising. They've tapped the likes of European aircraft maker Airbus Industrie and General Electric Co. for loans. They've refinanced Northwest's Tokyo real estate. Last year, in return for building two new maintenance bases in Minnesota, they lined up an \$835 million financial package from the state.

RUMORS. But the act may be wearing thin. From Minneapolis to Wall Street, people are openly speculating about Northwest's future. The airline slump, coupled with the near-insane summer fare war, is pounding Northwest. Analysts figure the thinly capitalized carrier, which has lost \$613 million in the past two years, will drop an additional \$200 million in 1992. Both Standard & Poor's Corp. and Moody's Investors Service recently downgraded its debt. Bankruptcy rumors, circulating since early June and strongly denied by Northwest, "are probably exaggerated," says Standard & Poor's analyst Philip Baggaley. "But it's not impossible."

The financial worries couldn't have come at a worse time. Trying to overcome the carrier's "Northworst" tag, Checchi and Wilson are spending millions to improve service and spruce up marketing. A fiscal crunch, or even ru-

mors of one, could threaten those programs and overwhelm Northwest's efforts to resuscitate its image.

Although CEO John H. Dasburg insists "the airline is not in financial trouble," it's hurrying to cut costs. Northwest recently deferred delivery of 20 midrange A320 planes from Airbus. A source within the company says it's about to delay



WILSON AND CHECCHI ARE ASKING UNIONS FOR CONCESSIONS

buying 16 A330s, though a spokesman had no comment. It sliced service at its Washington (D.C.) hub by 33% and asked unions to consider making concessions that one source close to the airline says may save \$300 million. "Northwest Now" is a corporate campaign supposed to use employees' ideas to hack off \$100

Trying to overcome its 'Northworst' tag, the airline is spending millions to improve service and marketing

million in costs by summer's end. On June 30, the company announced plans to cut 250 management jobs.

The carrier is hardly in a tailspin. Its \$600 million bank credit line is virtually untapped. The company has paid enough LBO debt, thanks in part to a loan from Minnesota, that no big payments are due until next July. "I think they'll survive," says one member of Northwest's bank group.

'A DEBACLE.' There's not much room for error, though. With \$4.2 billion in debt, Northwest currently has a negative net worth, says Joseph Franchi, senior vice president of finance. If the industry gets another shock like the gulf war or engages in another self-destructive price war, Northwest will be in an exceedingly tight spot. Dasburg concedes the carrier will lose at least \$40 million this

this spring's brief two-for-one ticket offer. "That was a debacle," he says. Northwest sued American Airlines Inc., which initiated the latest bargain bash, charging it with predatory pricing.

While the courtroom squabble goes on, Northwest's crow, its once-lucrative Pacific division, continues to bleed (chart). Much of the problem can be chalked up to Japan's faltering economy. But the airline hasn't helped matters by gaining a reputation for poor service. United capitalized on that weakness to lure more creative business passengers while eating into Northwest's overall market share. Northwest's share of U.S. carrier trans-Pacific traffic dropped to 38% in 1991, down from 40% two years earlier, while United's share jumped to 41%, up from 39.8%. To its credit, Northwest is fighting back.

is aggressively courting new travelers in Japan, changing flight times to cut the wait for connections, and upgrading in-flight service.

Elsewhere, Northwest isn't retreating either. After several years of trumpeting plans to become "the airline of preference," the company has committed \$450 million through 1995 to improve service, says Checchi. It also boosted its ad budget 50% this year, and on May 1 rolled out a new series of snappy spots. Featuring R&B singer Aaron Neville, the ads' tag line is: "Some people know how to fly."

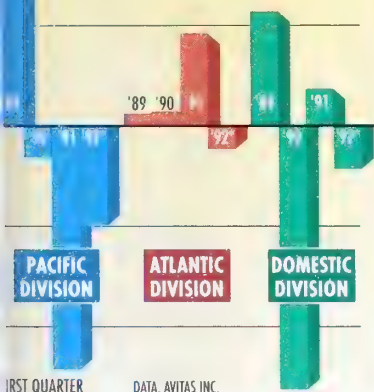
Northwest has learned more about that, too. Once the carrier with the worst on-time performance, Northwest

shed first last year. And it has made
 ady improvement in lost-baggage
 kings. But its battered image will
 e "at least two years" to change, pre-
 s David H. Treitel of industry consul-
 t Simat, Helliesen & Eichner Inc.
 ne competitors are more skeptical. "I
 k they're just flailing," says a senior
 cutive at a rival airline. He argues
 t Northwest won't truly be able to
 pete with American, United, and
 ta until it gets its finances in order.

LE CARDS. More cost-cutting might
 o. The company laid off 110 pilots on
 e 24. But to pare costs way back,
 ecchi must get concessions from his
 ns. He's negotiating with the me-
 nics, whose contract expired earlier
 year, and has asked the pilots and
 flight attendants to make con-
 cessions. Although nothing is
 on the table yet, the Air Line
 Pilots Assn. expects a proposal
 by July 8. ALPA "is open to

CHOPPY RESULTS

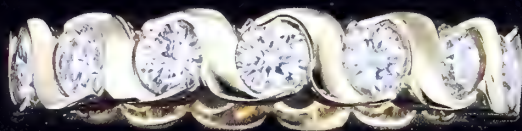
NORTHWEST AIRLINES
 OPERATING PROFIT OR LOSS
 MILLIONS OF DOLLARS



ussing" ways to save money, says
 tesman Craig Hofstetter.
 s usual, Checchi and Wilson may
 e a few financing cards up their
 ves. They are working on two deals
 ould bring in up to \$500 million,
 s Francht. In one, they would pledge
 ivables as collateral; in the other,
 'd pledge their aircraft. KLM Royal
 ch Airlines, which owns 20% of
 thwest, could be another source of
 ls for the carrier. In fact, Checchi
 icts Northwest and KLM will forge
 er ties "within five years." A KLM
 esman declines to comment. But
 e important, Checchi needs to get
 thwest's finances and operations in
 r. And that will take a lot more than
 ity from Lord Fletcher's.

Kevin Kelly in Minneapolis, with
 rt Neff in Tokyo and Patrick Oster in
 isels

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THE COLA KINGS ARE FEELING A BIT JUMPY

Changing tastes have Coke and Pepsi looking for new niches

Ah, the joys of summertime. There's the crack of ball meeting bat, the glow of sun on skin—and the din of cola wars. This summer, the celebrity-filled ads and splashy promotions from Coca-Cola Co. and PepsiCo Inc. are more urgent than ever. The reason: Americans' once-insatiable thirst for colas seems to be waning.

For Coke and Pepsi, the numbers are alarming: Cola's share of grocery-store soft-drink sales dropped last year, to 60.4% from 61.8% in 1990, according to Nielsen Marketing Research (chart). Cola's share peaked in 1984 at 63.6%. And the downward trend continued through February and March, the latest months for which data are available. That's bad news for the soda-pop giants, both of which get more than two-thirds of domestic soft-drink sales from colas. A point of soda-pop market share is worth about \$460 million in retail sales.

'ALL IS NOT WELL.' True, grocery stores account for only about 40% of soft-drink sales. Throw in vending machines, convenience stores, and restaurants, and cola's market share holds steady. But fast-food chains offer few choices of soft drinks. Supermarket shelves bulge with noncola alternatives, so they may be a better bellwether of changing habits. "The grocery-store numbers show that all is not well," says Richard D. Harvey, president of Seattle-based Sound Marketing Services and a former Coke executive. "The two companies have concentrated on each other for so long, they've opened the way for others to grab a piece of the business."

Some cola diehards are turning to cheaper store brands such as Wal-Mart Stores Inc.'s Sam's American Choice. And plenty of noncolas are jumping into the breach. Last year, brands such as Dr



Pepper and Barq's root beer showed volume gains of 15% and 17%, respectively, according to Wheat First Securities analyst John C. Maxwell Jr. And the so-called "New Age" category of flavored seltzers, juice drinks, and "natural" soda pops grew 13%, to \$515 million, fueled largely by Clearly Canadian Beverage Corp.'s namesake brand, according to industry newsletter *Beverage Digest*.

That's a wee drop in the \$46 billion soft-drink market but an enviable growth rate in an industry that edged up a scant 1.8% last year. "Consumers are willing to pay a higher price for variety," says John E. Koerner, president of Barq's Inc.

The shift in habits is hardly life-threatening for Coke and Pepsi. Ac-

cording to Maxwell, total market share for all their colas and noncolas remains high at around 41% and 31% respectively. Still, the titans don't like others to gain a foothold. And after years of getting each other as enemy No. 1, they now face a legion of pesky independents. So, they're shoring up their colas by launching noncola blitzes of their own.

Pepsi fired the first salvo in May, with its largest promotion ever, the Go Have It card. Aimed at drinkers of Pepsi, Diet Pepsi, and Mountain Dew, the card offers discounts on products from such partners as Reebok, Continental Airlines, and MCI.

Coke has a deal with Warner Music Group and NBC Inc. to exploit Coke's \$20 million Olympic Games sponsorship. Every night during the games, it will air a five-minute video of Warner performers such as Eric Clapton mixed in with Olympic highlights to help promote Coke. It also offers certificates good for cassette tapes and compact disks.

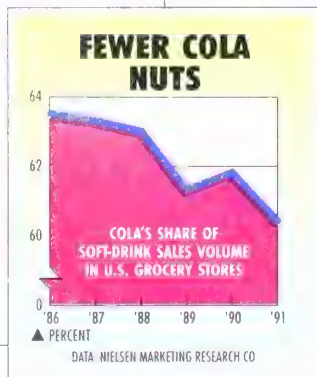
COLOR-FREE. To reach noncola types, both biggies are pushing everything from iced tea to colorless cola. Pepsi has been targeting Crystal Pepsi, a drink aimed at clear-soda-pop fans, which now has an astounding 5% share in Denver. It's too early to tell how repeat sales will fare.

As part of an agreement with Nestlé, Coke has introduced a reformulated Nestlé iced tea in the U.S. Pepsi has a tea deal with Thomas J. Lipton. Coke has expanded distribution of PowerAde sports drink, and Pepsi launched its All Sport. Pepsi will also distribute Ocean Spray juice drinks. "The cola category is still vibrant," says Brian Swette, Pepsi-Cola's general manager for new business. "But Pepsi is exploring these new categories to cut our net even further."

Both companies have also enlisted some old standbys in the noncola wars. Thanks to increased marketing and distribution last year, Coke upped sales for Sprite by 5%, and Pepsi boosted Mountain Dew by 9%. Coke's Fresca will soon appear in shapely green-glass bottles to appeal to the fancy-water crowd.

Wall Street analysts welcome all the noncola activity. "It's the only way to generate growth in the U.S. soft-drink industry," says Joseph J. Doyle, an analyst with Smith Barney, Harris Upham & Co. But it remains to be seen if the giants can fight off the swarm of rivals clamoring for their own spot in the soft-drink market.

By Walecia Konrad in Atlanta





Incredibly Swiss.

Matterhorn



Manhattan skyline

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THE IMMIGRANTS

HOW THEY'RE HELPING TO REVITALIZE THE U.S. ECONOMY

*Give me your tired, your poor,
Your huddled masses yearning to
breathe free...*

These words carved into the base of the Statue of Liberty speak to America's vision of itself. We were, and still are, a nation of immigrants. In the 1980s alone, a stunning 8.7 million people poured into the U.S., matching the great immigration decade of 1900-10. But with the country facing difficult economic and social problems, is it time to put aside our romantic past and kick away the immigrant welcome mat?

A lot of Americans feel the answer is "yes." In a BUSINESS WEEK/Harris poll, 68% of respondents said today's immigration is bad for the country, even though most thought it was good in the past. President Bush has found it politically expedient to refuse refugees from Haiti. And in areas like recession-weary Southern California, immigrants are being blamed for everything from rising unemployment to a rocketing state budget deficit. "I understand, in the past, 'give me your tired, your poor.' Today, the U.S. has to look at our own huddled masses first," says former Colorado Governor Richard D. Lamm, who is running for the U.S. Senate.

This rising resentment against immigrants is no surprise. The million or so immigrants—including 200,000 illegals—that will arrive in the U.S. this year are coming at a time when

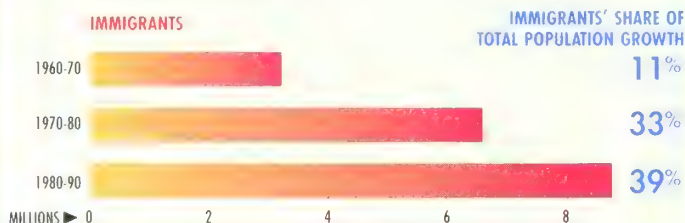
unemployment is high and social services strained. Unlike past waves of immigration, the new immigrants are mainly from Asia and Latin America. And just like the American work force, these immigrants are split between the highly skilled and well-educated and those with minimal skills and little education. Hungry for work, the newcomers compete for jobs with Americans, particularly with the less skilled. The large num-

ber of untrained immigrants, especially those from Mexico, are finding it harder to move up the employment ladder than did past generations of newcomers. And in the cities, the new immigrants seem to inflame racial and ethnic conflicts.

But on balance, the economic benefits of being an open-door society far outweigh the costs. For one thing, the U.S. is reaping a bonanza of highly educated foreigners. In the 1980s alone, an unprecedented 1.5 million college-educated immigrants joined the U.S. work force. More and more of America's high-tech industries, from semiconductors to biotechnology, are depending on immigrant scientists, engineers, and entrepreneurs to remain competitive. And the immigrants' links to their home countries are boosting U.S. exports to such fast-growing regions as Asia and Latin America.

Even immigrants with less education are contributing to the economy as workers, consumers, business owners, and taxpayers. Some 11 million immigrants are working, and they earn at least \$240 billion a year, paying more than \$90 billion in taxes. That's a lot more than the estimated \$5 billion immigrants receive in welfare. Immigrant entrepreneurs, from the corner grocery store to the local builder, are creating jobs—and not only for other immigrants. Vibrant immigrant communities are revitalizing cities and older suburbs that would otherwise be suffering from a shrinking tax base. Says John D. Kasarda,

A FLOOD OF NEW IMMIGRANTS...



...MAINLY FROM ASIA AND LATIN AMERICA...

SOURCES OF LEGAL IMMIGRANTS* 1971-91



*INCLUDES ILLEGAL IMMIGRANTS WHO HAVE RECEIVED AMNESTY

**INCLUDES BOTH TAIWAN AND THE PEOPLE'S REPUBLIC OF CHINA

...IS BETTER EDUCATED THAN EVER...

PERCENTAGE OF MALE WORKERS WHO ARE COLLEGE GRADUATES



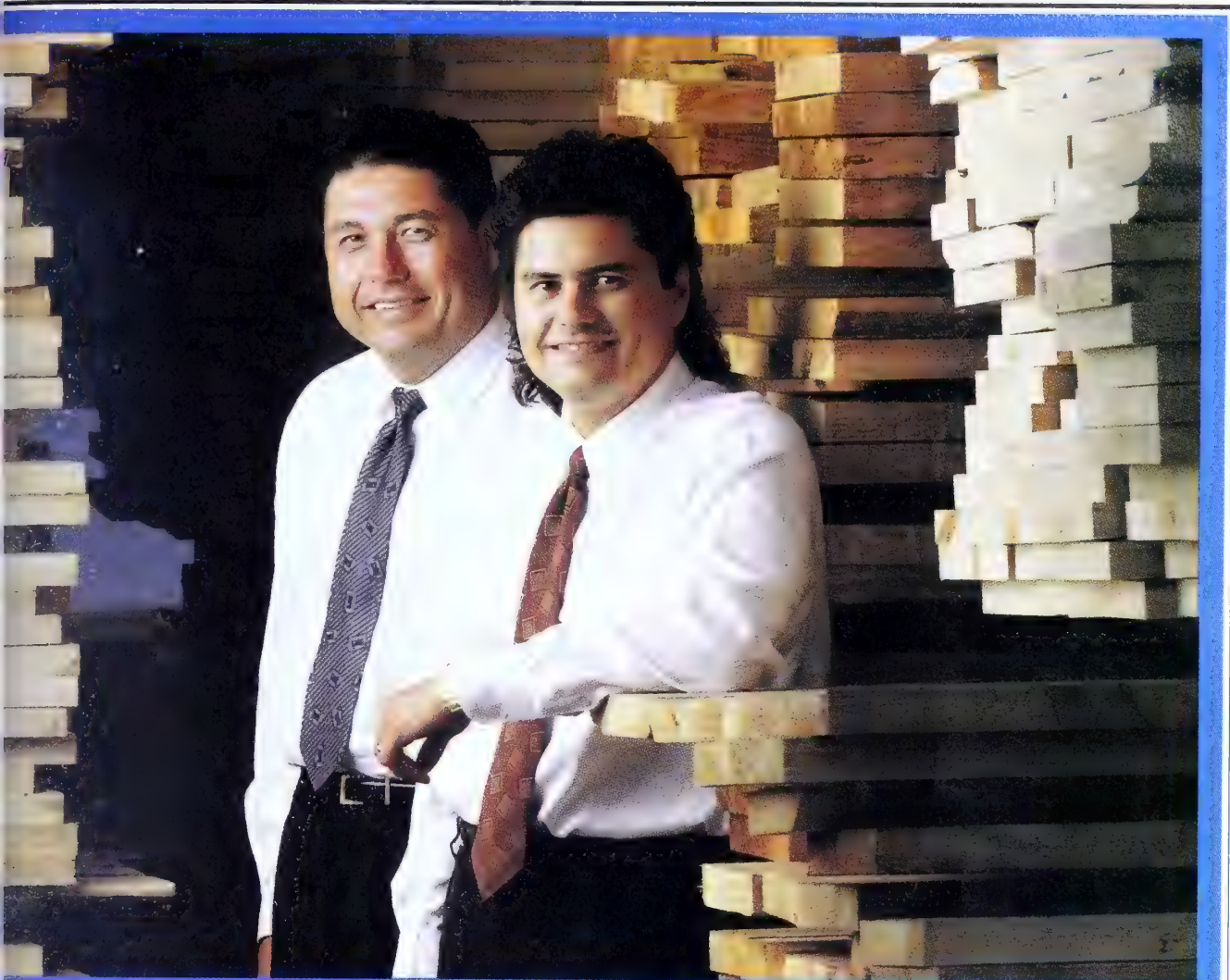
*IN U.S. FIVE YEARS OR LESS

...BUT MANY ARE HIGH SCHOOL DROPOUTS

PERCENTAGE OF MALE WORKERS WHO ARE NOT HIGH SCHOOL GRADUATES



DATA: THE URBAN INSTITUTE, CENSUS BUREAU, IMMIGRATION & NATURALIZATION SERVICE



AMERICAN MEGATRENDS
USES A MOSAIC OF
IMMIGRANTS TO BUILD
PC MOTHERBOARDS

NEW YORK GARMENT
WORKERS GRADUATE
FROM ENGLISH CLASSES
OFFERED BY THEIR UNION

THE MEXICAN-BORN
ACEVEDOS STARTED
CAL-STATE LUMBER.
EXPORTS ARE BOOMING



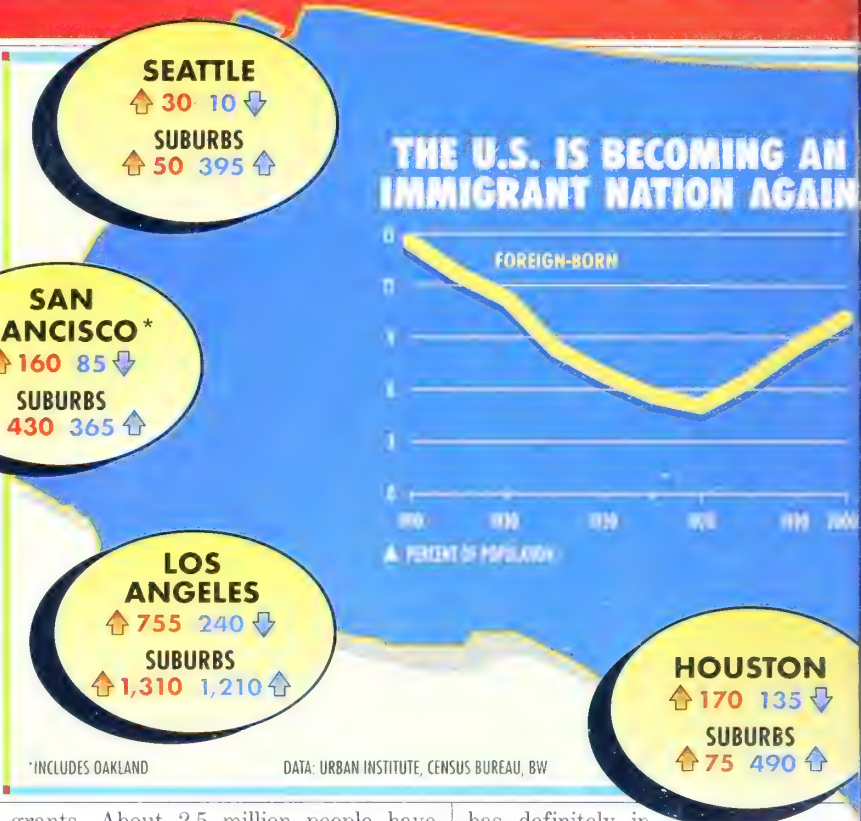
Cover Story

sociologist at the University of North Carolina at Chapel Hill: "There is substantial evidence that immigrants are a powerful benefit to the economy, and very little evidence that they are negative."

In 1965, when Congress overhauled the immigration laws, nobody expected this great tide of new immigrants. But that law made it easier to bring close relatives into the country and, influenced by the civil-rights movement, eliminated racially based barriers to immigration. Prior to that, it was difficult for anyone who was not European or Canadian to settle here. The result: a surge of immigrants from Asia and Latin America, especially from countries like South Korea and the Philippines that had close economic and military ties to the U.S. And once a group got a foothold in the U.S., it would continue to expand by bringing over more family members.

NEW WAVE. The aftermath of the Vietnam War provided the second powerful source of immigrants. Over the last 10 years, the U.S. granted permanent-resident status to about 1 million refugees, mostly from Vietnam, Cambodia, and Laos. And now the end of the cold war is tapping another immigrant stream: Over the last three years, the fastest-growing group of new settlers has been refugees from Eastern Europe and the former Soviet Union.

Throughout the 1970s and 1980s, a to-



grants. About 2.5 million people have become permanent residents under the amnesty program. And the pending North American Free Trade Agreement, by strengthening economic ties between Mexico and the U.S., might very well increase illegal immigration in the short run rather than diminish it.

Opening the gates to Asians and Latin

Americans dramatically altered the face of immigration. In the 1950s, 68% of legal immigrants came from Europe or Canada. In the 1980s, that percentage fell to only 13%. Conversely, the proportion of legal immigrants coming from Latin America and Asia rose from 31% to 84%, including illegal aliens granted amnesty under the 1986 law.

As the ethnic mix of the new immi-

grants changed, so did their levels of skill. At the low end, the plethora of low-wage service-sector jobs drew in a large number of unskilled, illiterate newcomers. About one-third of immigrant workers are high school dropouts, and one-third of those entered the U.S. illegally.

But the number of skilled immigrants has been increasing as well. "The level of education of recent immigrants

has definitely increased over the last 10 years," says Elaine Sorensen, an immigration expert at the Urban Institute. About one-quarter of immigrant workers are college graduates, slightly higher than for native-born Americans. Some groups, such as Indians, are on average much better educated than today's Americans. Observes Steven Newman, an executive at the New York Association for New Americans, which will settle about 20,000 immigrants from the former Soviet Union this year, include many engineers, computer programmers, and other skilled workers: "The only thing they lack is English skills."

TALENT BASE. Even immigrants who were doing well in their home countries are being drawn to the U.S. Take Subramanian Shankar, the 43-year-old president of American Megatrends Inc., a maker of personal-computer motherboards and software based in Norcross, Ga. He was director of personal-computer R&D at one of India's largest conglomerates. Then in 1980, he came to the U.S. In 1985, he and a partner founded AMI, which last year had sales of \$10 million and employed 130 workers, both immigrants and native-born Americans. "I couldn't have done this in India," says Shankar. "That's one good thing about America. If you're determined to succeed, there are ways to get it done."

And U.S. industry has been eager to take advantage of the influx. About 40% of the 200 researchers in the Communications Sciences Research wing at AT&T

IMMIGRATION'S NEW LOOK

The 1990 Immigration Act took effect this year. The new law boosts legal immigration by 40%. It still favors family members of U.S. citizens and permanent residents, but it more than doubles the slots available for skilled workers. Political refugees come under a different act. Here's the likely pattern of immigration in 1992:

Close relatives of U.S. citizens, and spouses and children of permanent residents	520,000
Skilled workers and their families	140,000
Citizens of countries with relatively few immigrants in recent years, such as Argentina and Ireland	40,000
Political refugees, including those from the former Soviet Union	141,000
Illegal immigrants	200,000*
TOTAL	1,041,000

*Estimate

DATA: IMMIGRATION & NATURALIZATION SERVICE, BW

tal of some 5 million illegal immigrants from Mexico and other countries settled in the U.S., drawn by opportunity here and fleeing economic troubles at home. Many settled in Southern California and Texas. In 1986, Congress passed the Immigration Reform & Control Act (IRCA), which imposed penalties on employers who hired illegal immigrants but also gave amnesty to many illegal immi-

CHICAGO

↑ 210 430 ↓
SUBURBS
↑ 140 160 ↑

BOSTON

↑ 60 50 ↓
SUBURBS
↑ 60 70 ↑

NEW YORK CITY

↑ 955 705 ↓
SUBURBS
↑ 550 305 ↓

MIAMI

↑ 105 90 ↓
SUBURBS
↑ 360 180 ↑

SPECIALLY IN ITS BIGGEST CITIES AND THEIR SUBURBS

CHANGE IN POPULATION 1980-90

↑ INCREASE ↓ DECREASE
IN THOUSANDS

NEW IMMIGRANTS / EVERYONE ELSE

all Laboratories were born outside the U.S. In Silicon Valley, the jewel of America's high-tech centers, much of the technical work force is foreign-born (page 120). At Du Pont Merck Pharmaceutical Co., an \$800 million-a-year joint venture based in Wilmington, Del., losartan, an antihypertensive drug now in clinical trials, was invented by a team that included two immigrants from Hong Kong and a scientist whose parents migrated from Lithuania. People from different backgrounds bring a richness of outlook, says Joseph A. Mollica, chief executive of Du Pont Merck, which lets you look at both problems and opportunities from a slightly different point of view."

The next generation of scientists and engineers at U.S. high-tech companies will be dominated by immigrants. While at the same number of Americans are getting science PhDs, the number of foreign-born students receiving science doctorates more than doubled between 1981 and 1991, to 37% of the total. In the 1990s, the number of U.S. citizens getting doctorates tripled over the last five years. And about 51% of computer-science doctorates in 1991 went to foreign-born students. "We are getting really good students—very, very smart people," says Victor L. Thacker, director of

the office of international education at Carnegie Mellon University, which has doubled its foreign enrollment since 1985.

UP THE LADDER. Attracted by the research opportunities and the chance to use what they know, about half of them stay in the U.S. after graduation, estimates Angel G. Jordan, a professor and former provost at Carnegie Mellon, who himself emigrated from Spain in 1956. And the 1990 changes to the immigration law, by increasing the number of visas for skilled immigrants, will increase the number of foreign graduates who remain in the U.S.

Besides boosting the nation's science and engineering know-how, the latest wave of immigrants is loaded with entrepreneurs. Korean greengrocers and oth-

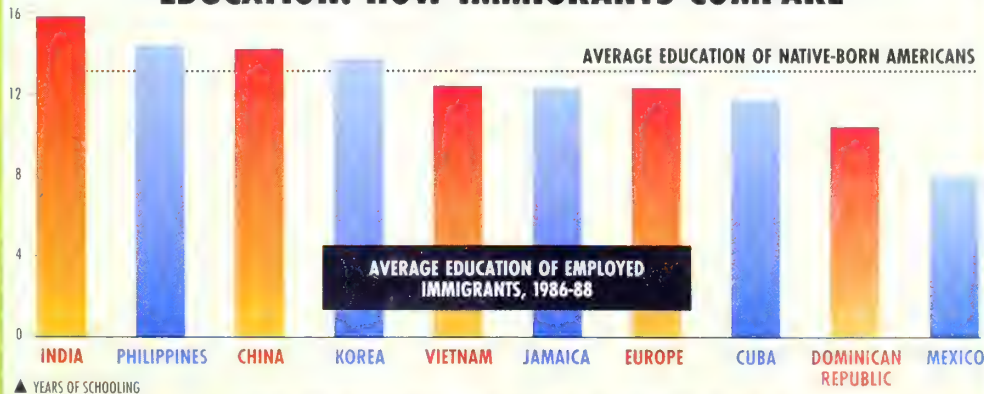
er immigrant merchants are familiar sights in many cities, but the entrepreneurial spirit goes far beyond any one ethnic group or single line of business. Almost by definition, anyone who moves to a new country has a lot of initiative and desire to do well. Says Dan Danilov, an immigration lawyer based in Seattle: "They're willing to put in more hours and more hard work."

And do they work. Paul Yuan, for example, left Taiwan with his wife in 1975, seven days after their marriage, eventually settling in Seattle with several thousand dollars in life savings and no work visas. For two years Yuan, a college graduate, worked in Chinese restaurants. Then, in 1978, he became a legal resident and opened his own travel agency while working nights as a hotel dishwasher. Today, at age 43, Yuan owns a thriving Seattle travel business, and he and his family live in a \$4 million house. In 1965, 21-year-old Humberto Galvez left Mexico City for Los Angeles. He started pumping gas and busing tables, working his way up the ladder, with a lot of bumps along the way. After starting, then selling, the chain of 19 "El Pollo Loco" charbroiled chicken restaurants in the Los Angeles area, he now owns six Pescado Mojado (wet fish) seafood diners, employing 100 workers.

Immigrant entrepreneurs have also made big contributions to the U.S. export boom. Businesses run by immigrants from Asia, for example, have ready-made connections overseas. Immigrants bring a global perspective and international contacts to insular American businesses. And it is not just Asians. From Poles to Mexicans, "the utility of the immigrant groups is that they bring their fearless spirit of competing globally," observes Michael Goldberg, dean of the University of British Columbia's business school.

That's certainly true for Benjamin and

EDUCATION: HOW IMMIGRANTS COMPARE



Cover Story

Victor Acevedo, two brothers whose family moved from Tijuana, Mexico, to California in 1960, when they were 3 and 8. In 1984, the Acevedos started up a wood-products company in the south San Diego community of San Ysidro, just across the U.S.-Mexico border. Cal-State Lumber Sales Inc. now commands 10% of the architectural molding market in the U.S. and had 110 employees and \$147 million in sales last year. And as long-term trade barriers with Mexico crumbled over the past few years, the Acevedos have been able to take advantage of their bicultural heritage. "My brother and I started shipping all over Mexico, and our export business boomed," says Ben Acevedo.

URBAN BOOSTERS. Perhaps the least-appreciated economic benefit from the new immigrants is the contribution they are making to American cities. Immigrants have been drawn to the major metropolitan areas. They are invigorating the cities and older suburbs by setting up businesses, buying homes, paying taxes, and shopping at the corner grocery. In the past decade, population in the nation's 10 largest cities grew by 4.7%, but without new immigrants it would have shrunk by 6.8%, according to calculations done by BUSINESS WEEK based on the 1990 census. Almost a million immigrants came to New York City in the 1980s, more than offsetting the 750,000 decline in the rest of the city's population. Indeed, about a third of adults in New York, 44% of adults in Los Angeles, and 70% of adults in Miami are now foreign-born, according to the 1990 census.

Immigrants have turned around many a decaying neighborhood. Ten years ago, Jefferson Boulevard in south Dallas was a dying inner-city business district filled with vacant storefronts. Today, there are almost 800 businesses there and on neighboring streets, and about three-quarters of them are owned by Hispanics, many of them first- and second-generation immigrants. "They were hungry enough to start their own businesses," says Leonel Ramos, president of the Jefferson Area Assn. And sociologist Kasarda adds: "There is a whole multiplier effect throughout the community."

Moreover, immigrants provide a hardworking labor force to fill the low-paid jobs that make a modern service economy run. In many cities, industries such as hotels, restaurants, and child care would be hard-



pressed without immigrant labor. At the Seattle Sheraton, 28% of the hotel's staff of 650 is foreign-born, and most work in housekeeping, dish-washing, and other low-paying jobs. "We don't have American-born people apply for those positions," says Carla Murray, hotel manager for the Seattle Sheraton.

MARGIN DWELLERS. But all the economic vitality immigrants add comes at a price. While economists and employers may celebrate industrious immigrants, many barely survive on the economy's margins. "They don't go to the doctor, don't buy insurance, don't buy glasses, don't buy anything you or I are used to," says Hannah Hsiao, head of the Employment Program at the Chinese Information & Service Center in Seattle. A firing, unpaid wages, a deportation, or some other calamity is always threatening. And ra-

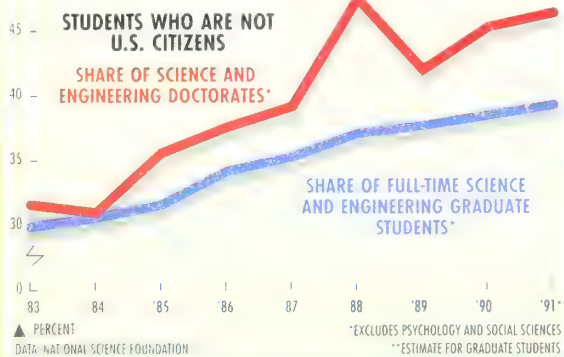
cial discrimination makes their lot even harder, especially those who don't speak English. Some, like economist George Borjas of the University of California at San Diego, worry that these poor and unskilled immigrants are condemned to years of poverty.

In many cities, newcomers and longtime residents struggle over jobs and access to scarce government resources. Immigrants are straining health and education services in some cities and suburbs. And many African-Americans believe the apparent success of immigrants is coming at their expense. In New York City, blacks picketed a number of Korean greengrocers. According to the BUSINESS WEEK/Harris poll, 70% of blacks said businesses would rather hire immigrants than black Americans.

The people hurt worst by immigrants are native-born high school dropouts who already face a tough time. They compete for jobs against a large number of unskilled immigrants, including equals from Mexico and the Caribbean who are poorly educated, unable to start their own businesses, and willing to work harder for lower wages than native-born residents.

For Americans who have at least a high school education, however, the influx of immigrants hasn't had much relative impact. High school graduates, for example, saw their real wages decline 10% in the 1980s. But almost all of that drop came from import competition and rising skill requirements of many jobs, and only a fraction from immigrant competition.

MORE SCIENCE AND ENGINEERING STUDENTS ARE COMING FROM ABROAD



AMERICA'S WELCOME MAT IS WEARING THIN

Most Americans are uneasy about immigrants. While a majority think immigration was once a good thing, they now believe it's harming the country. The public worries that new arrivals take away jobs, drive down wages, and use too many government ser-



vices. But forget the conventional wisdom about black resentment of immigrants: Even though 73% of blacks believe businesses would rather hire immigrants, blacks in general feel more positively toward immigrants than do nonblacks.

FEELING THE INFUX

Compared to other times in our history, would you say there are more immigrants coming to the U.S. now, fewer immigrants, or about the same number as before?

All respondents	
More	64%
Fewer	11%
Same	21%
Not sure	4%

PAST BENEFITS

Overall, over our history, do you think immigration has been good or bad for this country?

All respondents	
Good	59%
Bad	35%
Neither	3%
Not sure	3%

PRESENT DANGERS

Right now, do you think immigration is good or bad for this country?

	Nonblacks	Blacks
Good	26%	40%
Bad	69%	53%
Neither	2%	6%
Not sure	3%	1%

ESSEN THE FLOW

In the 1990s, would you like to see this country admit more, fewer, or about the same number of immigrants as were admitted in the 1980s?

	Nonblacks	Blacks
More	3%	12%
Fewer	62%	47%
Same	31%	34%
Not sure	4%	7%

JOON OR BURDEN?

Now I'd like to read you a series of statements about immigration in this country. For each statement, please tell me if you agree or disagree.

	Nonblacks			Blacks		
	Agree	Dis-agree	Not sure	Agree	Dis-agree	Not sure
ew immigrants take jobs away from American workers	62%	37%	1%	63%	34%	3%
lot of immigrants bring needed skills to this country	49%	49%	2%	60%	34%	6%
ew immigrants joining the labor force drive down wages	66%	32%	2%	61%	36%	3%
any new immigrants are very hard-working	83%	15%	2%	87%	10%	3%
immigrants use more than their fair share of government services, such as welfare, medical care, and food stamps	62%	32%	6%	59%	34%	7%

A lot of immigrants start new businesses, which helps the U.S. economy

	Nonblacks			Blacks		
	Agree	Dis-agree	Not sure	Agree	Dis-agree	Not sure
grow	55%	40%	5%	67%	29%	4%
Immigration makes race relations in our cities worse	61%	35%	4%	43%	52%	5%

ON THE HIRING LINE

Which do you think businesses prefer to hire—immigrants or black Americans?

	Nonblacks	Blacks
Immigrants	49%	73%
Black Americans	30%	15%
Makes no difference	6%	5%
Not sure	15%	7%

BILINGUAL DILEMMA

In areas where there are a lot of non-English-speaking immigrants, do you think public schools should or should not offer education in their language?

	Nonblacks	Blacks
Should offer	43%	77%
Should not offer	56%	20%
Not sure	1%	3%

PRICE OF ADMISSION

Should immigrants who have education and skills be favored for admission to this country over those immigrants with less education and skills or not?

	Nonblacks	Blacks
Immigrants with education and skills should be favored for admission	47%	36%
Not favored	48%	59%
Not sure	5%	5%

THE DREAM LIVES ON

Is the American dream of middle-class prosperity still a realistic goal for new immigrants or not?

All respondents	
American dream still realistic	56%
Not realistic	39%
Not sure	5%

Edited by Christopher Power

Survey of 1,418 adults, including 246 blacks, conducted June 10-14, 1992, for BUSINESS WEEK by Louis Harris & Associates Inc. Results should be accurate to within 3 percentage points, except that results for the smaller sample of blacks should be accurate to within 7 percentage points.

HIGH TECH'S HUDDLED MASSES: MAKING A MARK IN SILICON VALLEY

In 1979, Solecron Corp., a circuit-board assembler based in Silicon Valley, was about to go under. Enter Winston H. Chen, a Taiwanese immigrant. Tapping into savings accumulated during an eight-year stint as an IBM manager, he bought half the company for \$100,000 and engineered a quick turnaround. Sales have grown on average by more than 50% a year for the past 14 years, to \$181 million, and the company is now a symbol of American competitiveness in a field dominated by East Asian companies. Last year, Solecron won a coveted prize in American business: the Malcolm Baldrige National Quality Award.

Immigrants play a big role in Silicon Valley—from assembling chips and

its way up the high-tech hierarchy. Says Taiwan-born David N. K. Wang, vice-president of Applied Materials Inc.: "Silicon Valley is one of the most international business centers in the world."

IDIOM WATCH. Still, it's not all that easy for immigrants to get into management. A 1990 study by Pacific Studies Center, a public interest information center in Mountain View, Calif., showed that despite the large Asian presence in the Valley's high-tech work force, they account for less than 10% of management.

Some new arrivals have language problems, of course. And it takes time to move them up the management ladder. But China-born David K. Lam,

petition, according to a study by Borjas of UC, San Diego, and Richard Freeman and Lawrence Katz of Harvard University. "It is extremely convenient to point a finger at immigrants," says Muzaffar Chishti, director of the Immigration Project for the International Laborers' Garment Workers' Union in New York. "But the problems of black employment are outside the immigrant domain."

Moreover, for all their struggles, many immigrants are hardly wards of the state. Illegals are not eligible for welfare, and even many legal immigrants shun it, fearing that it will make it harder to become a citizen in the future. A study by Borjas shows that in 1980—the latest national data available—only 8% of immigrant households received welfare, compared to 7.9% of all native-born Americans. And with the education and skill levels of immigrants rising in the 1980s, the expectations are that the spread between the two hasn't widened, and may have even narrowed. In Los Angeles County, for example, immigrants amount to 16% of the 722,000 people on Aid to Families with Dependent Children, the government's main welfare program. Yet immigrants are more than 30% of the county's population. "Immigrants benefit natives through the public coffers by using less than their share of services and paying more than their share of taxes," says Julian L. Simon, a University of Maryland economist.

SCHOOL DAZE. One real concern is whether urban school systems can handle the surge of immigrant children. "The public school is the vehicle through which the child of immigrants becomes Americanized," says Jeffrey S. Passel, demographer for the Washington-based Urban Institute. But in many cities, the task of educating immigrant students has become an enormous burden. In Los Angeles, 39% of the city's students do not speak English well, and in Seattle, 50% come from homes where English is not the family's first language. In the nation's capital, the school system is nearly overwhelmed by a huge number of Vietnamese, Haitians, and Salvadorean children. "If the school system is inadequate, then it's much more difficult to help immigrants move up the economic ladder," says Robert D. Hormats, vice chairman of Goldman, Sachs International and head of the Trilateral Commission's working group on immigration.

City schools, despite the constraints of tight resources, are finding innovative ways to reach immigrant children. In Seattle, about half the immigrant students speak such limited English that they qualify for a program where they are taught subjects in simplified English. The Los Angeles schools offer dual language



computers to developing the next generation of high-tech products. Asians, for example, make up about a third of the Valley's engineering work force. And the design of Intel Corp.'s latest microprocessor, which will run a new generation of personal computers, was managed by an East Indian native and a Taiwan-born vice-president.

Some of the valley's best-known entrepreneurs were born in other countries. Chief Executive Officer Andrew S. Grove escaped from Hungary in 1956 and built Intel into the largest U.S. chipmaker. In 1983, Frenchman Philippe Kahn founded Borland International Inc., one of the world's biggest software companies. Now, a new generation of immigrants is working

founder of Lam Research Corp., a large manufacturer of chipmaking equipment, believes that many white executives think Asians can't be good managers. "Underlying prejudice is still there," he says.

Several Valley companies are trying, however, to open up their managerial ranks. In many companies, managers routinely take courses on "managing diversity." Some companies offer immigrants classes on American idioms and business culture. In the highly competitive electronics business, more and more companies are finding that it pays to tap the cultural backgrounds, financial contacts, and entrepreneurial drive of the new immigrants.

By Robert D. Hof in San Jose, Calif.

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guage classes in Spanish, Korean, Armenian, Cantonese, Filipino, Farsi, and Japanese. Other organizations, such as unions, are also teaching immigrants English. In New York, the Garment Workers Union, often called the immigrant union, offers English classes to its members and their families.

In the coming decade, it won't be easy

to assimilate the new immigrants, whether they come from Laos or Russia. But the positives far outweigh any short-term negatives. In today's white-hot international competition, the U.S. profits from the ideas and innovations of immigrants. And by any economic calculus, their hard work adds far more to the nation's wealth than the resources

they drain. It is still those "huddled masses yearning to breathe free" will keep the American dream burning bright for most of us.

By Michael J. Mandel and Christopher Farrell, with Dori Jones Yang in Seoul, Gloria Lau in Los Angeles, Christina Valle in Washington, S. Lynne Walker in San Diego, and bureau reports

ARMAGEDDON—OR SHINING CITY OF THE FUTURE?

Drive west along Miami's N.W. 62nd Street, and it's easy to see the impact of immigration. Gracing the shores of Biscayne Bay are apartments, condos, and houses inhabited by affluent whites. West of U.S. 1 is Little Haiti, home to most of the city's estimated 75,000 Haitians. Continue past I-95 to Liberty City, one of Miami's black American centers, where signs of economic life are returning after riots 12 years ago. Farther west in Hialeah, Dade County's second-largest municipality, store signs switch to Spanish in a city of 188,000 that is 87% Hispanic.

No other area in America has been so transformed by immigrants as Miami. A sleepy tourist area 30 years ago, this metropolis with a Latin beat now has more foreign-born residents than any other major U.S. city. Indeed, Hispanics constitute 49% of Dade County's 1.9 million population. "We're the new Ellis Island," says Marvin Dunn, professor of psychology at Florida International University.

PAST TENSE. But in the aftermath of these changes, Miami has become a troubled city. Uncomfortable in the newly ethnic milieu, thousands of whites moved north to neighboring counties in the 1980s. Miami has exploded in a fury of riots three times over the past 12 years. The shooting of a black motorcyclist by a Hispanic police officer sparked the last riot, in 1989. And the ethnic frictions haven't subsided. Between black Americans and Haitian immigrants there is tension over jobs, language, and culture. But in front of the Winn-Dixie supermarket in Liberty City, J. A. Alex says the real conflict is between blacks and Cuban immigrants. "Nobody's backing

up. Blacks aren't going back to the 1950s, and Cubans are not going to go back to Havana."

Miami's immigrant transformation began with the waves of Cuban refugees in the 1960s and 1970s and culminated with the 1980 influx that brought about 125,000 Cubans and Haitians to Miami within just two months. Nicaraguans, Peruvians, and scores of other Hispanics fleeing war and economic upheaval at home soon followed. And more Haitians keep trying to get into the U.S., despite the Bush Administration's goal of sending Haitian refugees back home.

study on immigration's impact by anthropologist Alex Stepick of Florida International University notes that it was Cuban immigrants, not blacks, who won the lion's share of public and private money available for minority economic development after the 1960s civil rights movement.

BOYCOTTS AND BRIDGES. Miami's racial tensions are exacerbated at times by the role of geopolitics in local affairs. Black leaders have waged a two-year boycott of Miami as a convention site after the city snubbed African National Congress leader Nelson Mandela in 1990 for thanking Cuban leader Fidel

Castro for support during his imprisonment. The boycott has canceled the city 28 conventions. And attorney H. T. Smith, who has led the boycott effort, says he has received hundreds of requests by blacks to start a Cuban business boycott, an effort he hasn't supported. Now that Cubans are the new power elite, they "have the opportunity to move over the model city of the 21st century or Armageddon," he says. "It's that serious."

There have been attempts at building bridges between blacks and Hispanics. Hotel and tourist companies are making a determined effort to hire more blacks in management positions and sales jobs, and black businesses are getting more floral, catering, and other contracts. A Greater Miami Chamber of Commerce committee is working to promote Hispanic-black ventures. Says Nicaraguan banker Roberto Arguello, a co-chairman of the committee: "The tension is there, but leaders are working to decrease it. But with all Miami's problems, this is going to take a long time."

By Gail DeGeorge in Miami



The first waves of Cuban immigrants were mostly middle-class. Some had squirreled away capital to start up businesses. And as their numbers grew, Cubans drew on a ready market connected by language and culture for the businesses they established. Economic gains were matched by political triumphs: Miami's mayor is Cuban, the city commission is controlled by Cubans, and one-third of the county's state representatives are Cuban.

A large part of the tension between Miami's black and Hispanic community stems from the perception among many blacks that the Cubans' gain came at their expense. Indeed, a 1990



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HOW MUCH PRUDENCE IS GOOD FOR PRUDENTIAL?

So far, the insurer is wearing its newfound caution well

The roaring '80s galvanized many financial institutions, but few with such a jolt as the Prudential Insurance Co. of America. The nation's largest insurance concern catapulted beyond the somnolent realm of mutuals into virtually every corner of the financial universe: investment banking, credit cards, mortgages, home sales.

The Pru transformed itself into an entrepreneurial crucible, where people with innovative ideas were encouraged to set up new business units. Sweeping aside its stodgy culture, the Newark (N.J.)-based giant lured hotshot Wall Street types across the Hudson River and paid them lush salaries to do wonders with its cornucopia of funds. The insurance megalith grabbed significant chunks of the last decade's flashiest corporate buyout and real estate deals. It pushed into new frontiers, like "underinsured" East Asia and Southern Europe.

These days, unfortunately, the fates feel a need to punish 1980s boldness. A sickening number of the insurer's deals have run into trouble—Macy's (\$811 million invested), Carter Hawley Hale (\$344 million), E-II (\$87 million). Investment losses forced the Pru to slice dividends to policyholders by 7% in 1991 and 4% in 1992. Worse, in January, the Pru lost its coveted top rating from Moody's Investors Service Inc., bumping down a notch to Aa1. In 1990, its investment bank, then called Prudential-Bache Securities Inc., took a hellacious pratfall, running up \$259 million in red ink and suffering lawsuits from thousands of angry limited partnership investors. Archrival Metropolitan Life Insurance Co. has overtaken the Pru in total life insurance in force.

'PUSHED BOTH WAYS.' This rude turn of events has provoked a profound internal debate over the best strategy for the Pru during the 1990s. At the center of the debate is Chairman Robert C. Winters, a methodical fellow whose training as an actuary inclines him temperamentally toward old-style mutual-insurer thinking. He believes that the 116-year-old Pru needs to pause for retooling and

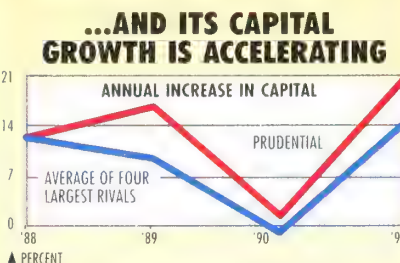
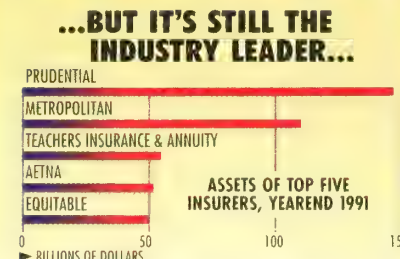
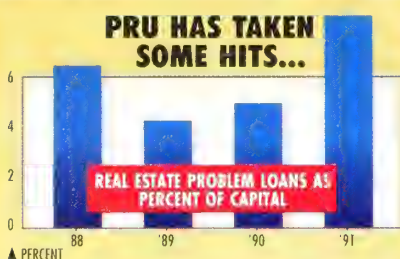
move back to its traditional cautiousness. Until such basic dilemmas as problem loans are resolved, he feels, intrepid ventures make little sense. Yet more aggressive staffers argue that the company should keep striking out in fresh directions. "I get pushed both ways," says Winters, who succeeded the more hard-charging, expansion-minded Robert A. Beck in 1987. "But these times call for careful management, and this is bound to disappoint the bold."

The Pru under Winters is a case study on how to redirect a behemoth institution, curbing excesses without squelching the healthy entrepreneurial spirit developed over the past few years. Winters knows he must walk a fine line. Too much caution can foster a complacency that proves deadly over the long

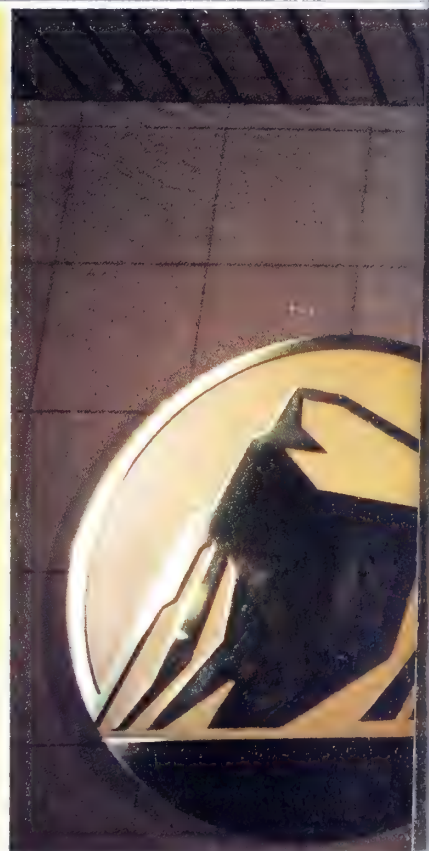
run. "While we're digesting the changes of the past," he says, "we need to continue looking for growth." Indeed, there are even reports, denied by both sides, that the Pru is talking to General Electric Co. about acquiring GE's Kidder Peabody & Co.

Thus far, Winters' strategy appears to be working. While sour 1980s deals remain worrisome, the Pru has maintained its standing as the industry's asset champ, with \$148 billion worth. And its capital—or net worth, the best measure of insurer performance—surged in 1991, far outpacing big competitors' and making up for a blah 1990 (charts).

SCOUT'S HONOR. Helping this is the long-term outlook inherent in the mutual setup, whereby its 12 million policyholders technically own the company, mea-



DATA: MOODY'S INVESTORS SERVICE; A.M. BEST CO.; BW



the Pru has no stockholders eager for ever-rising quarterly returns. In addition, debilitating internecine warfare is known at the Pru, where there's a deeply ingrained culture of collegiality known internally as "Prudential polite." What's sacred to Winters, who labors hard at keeping the work environment pleasant. He has written a Boy Scout-style code of conduct that employees should embody, including respecting each other. "Prudential is a far happier place to work than elsewhere," says James W. Stevens, who served at Citi- and Dillon, Read & Co. before becoming an executive vice-president of Prudential's investment arm in 1987. One point, after a rare public display of temper at an executive, Winters took the podium at a company gathering and apologized to him. Another time, Winters cut the pay of several mean-spirited managers. "You don't have to abuse

people to get good results," he says.

As an actuary, Winters, 60, may be the perfect Prudential CEO for the problematic 1990s. Actuaries assess risk and live in a world of hard numbers. The son of an Aetna actuary, Winters often tells subordinates he doesn't want off-the-cuff opinions; for him, positions must be backed by a solid body of evidence. A quiet, cerebral man, Winters is far different from his extroverted predecessor, Beck, who had a sales background.

One of Winters' largest challenges is simultaneously reining in and motivating his most venturesome executives, who are impatient with his strategy. He wants them to help position the Prudential for tomorrow's opportunities. But he also needs them to pitch in fixing the leftover 1980s weaknesses.

'GLACIER CITY.' This approach is especially tough for the go-go folks to take. Many of them have gone away to other jobs. Says one: "Pru is glacier city again." Those who stayed admit they are frustrated with the cautious thinking. James Stevens, for instance, chafes against senior management's decision to lock the insurer out of leveraged buyouts. "I argue that we made a lot of money on LBOS," says Stevens.

Instead, many of these executives are working to limit losses on 1980s deals. The Prudential refused a

plan in January to bail out R. H. Macy Inc. by accepting a lower interest rate proposed for the retailer's bonds. The rebuff propelled the department-store chain into Chapter 11. The insurer figured that, since the paper is secured by the chain's valuable real estate, it would fare better in bankruptcy.

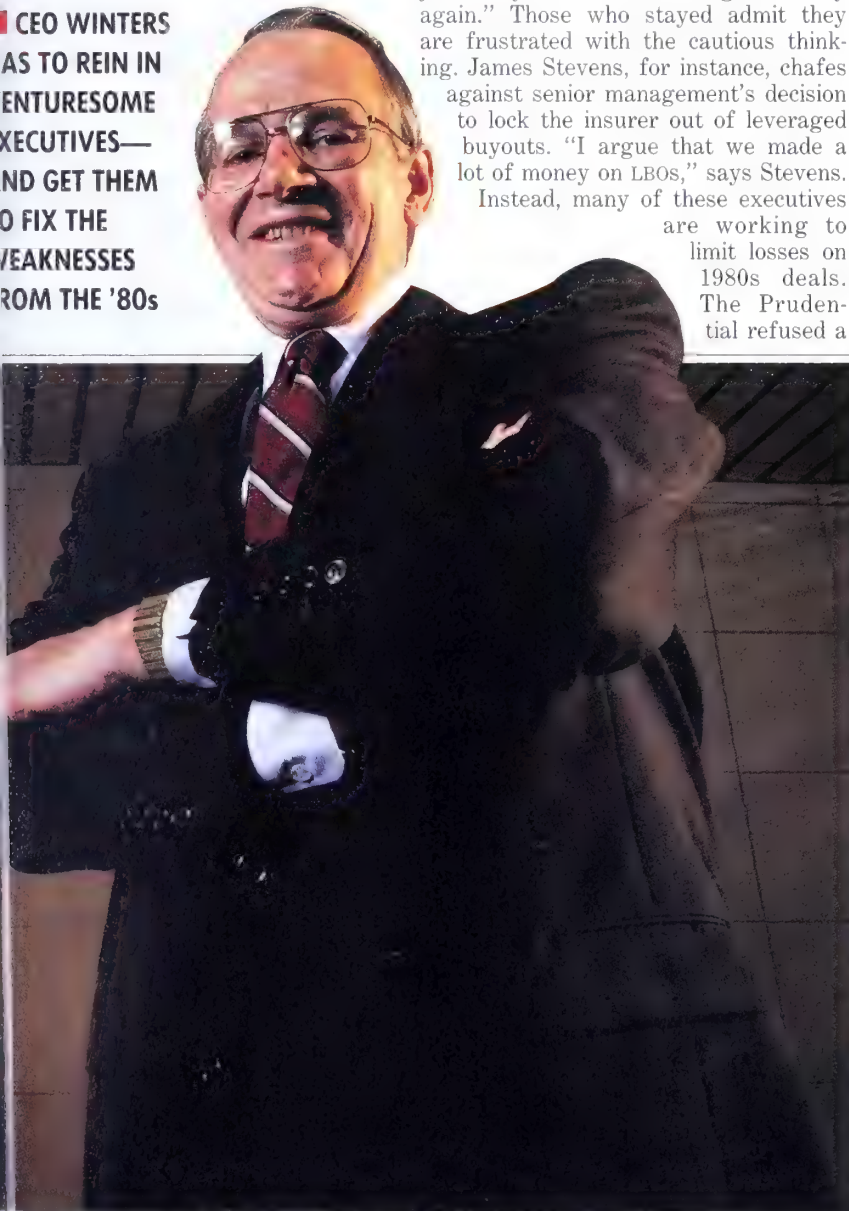
The company's commercial real estate division, which not long ago was shoveling dollars at a vast array of glittering building projects, nowadays is gradually selling property holdings. Most prominent: the Empire State Building for \$40 million late last year. Eugene B. Heimburg, the Pru veteran heading building investments, is scrambling to get New York officials to allow postponement of its planned \$1.5 billion, four-tower complex in Times Square until the city's devastated office market turns around. Under current agreement, the first building must open in 1995. Sighs Heimburg: "It's nicer to be sitting on top and building things."

Although innovation has not totally vanished from the Prudential, the hurdles for approval are higher than before. Pru President Ronald D. Barbaro, chief of insurance sales, had a tough fight getting the company to be the first top insurer to offer so-called "living benefits" riders, where terminally ill customers can draw part of their death benefits before they die. Barbaro got the idea visiting a dying patient in a Toronto AIDS hospice. "His family couldn't afford to come from Europe to be with him," recalls Barbaro. The living benefits proposal "ran into dozens of objections" from Prudential people anxious that it would bring financial losses. "They complained that they had no actuarial studies," he says. Barbaro managed to convince Winters that the program was worthwhile and wouldn't lose money. Now 18 months old, living benefits have hardly damaged the Pru, which has paid out an average \$80,695 to 364 policyholders—and generated good publicity.

ROCK SLIDE. Yet while Winters is getting the Prudential to hunker down, he has been careful not to dismantle the new ventures of the 1980s, which he feels will eventually bolster it in competing against both fellow insurers and other financial-services gargantuas. The company denies rumors that it sought to sell Pru-Bache when it ran into distress. Winters ended up pumping in more capital and shaking up the brokerage's management in early 1991. Pru-Bache, renamed Prudential Securities Inc. and helped by the recent bull market, posted a stellar showing last year.

Contrast that to Citicorp, which spun off its Ambac Inc. municipal bond insurer. Or to American Express Corp., seller of Firemans Fund Corp., an insurer. Or to Merrill Lynch & Co., which got rid of

**CEO WINTERS
AS TO REIN IN
VENTURESOME
EXECUTIVES—
AND GET THEM
TO FIX THE
WEAKNESSES
FROM THE '80s**



its residential real estate unit in 1989 (to the Prudential, its last major new foray). "We build businesses," says Vice-Chairman Garnett L. Keith Jr., the insurer's chief investment honcho. "We don't trade them away."

Going forward, the Prudential enjoys some weighty advantages. The company's diversity and mammoth size are key ones, cushioning it in rotten years, when smaller operators get whacked. The Rock of Gibraltar trademark symbolizes the Pru's legendary reputation for stability. This steadfast image has lured new customers, scared by the limping performances of many insurance competitors—Equitable, Travelers, Aetna—and the outright collapse of others—Mutual Benefit, Executive Life, First Capital. Hence, executives say, the Moody's downgrade hasn't hindered the Pru's sales force at all.

VINYL FRONTIER. Certainly, insurance and annuity sales, the basic fuel that fires the Pru's engine, are doing spectacularly well. Premium income surged 21% last year. The Pru still faces a stiff fight with Met, which surpassed it in total face value of policies in 1988. Best known for cutesy ads featuring Snoopy, Met has padded that lead by acquiring en masse the life and annuity policies of stricken carriers such as Executive Life Insurance Co. of New York. The Pru develops new business piecemeal.

The Prudential is putting lots of resources into residential real estate, which it sees as its most promising new growth area. Unlike the overbuilt commercial sector, the private-home market is recovering from the recession. The Pru's mortgage unit, begun merely eight years ago, is now the No. 3 home-loan issuer nationally. The insurer also is devoting major attention to its home-sales company, which vaulted into the big time with the Merrill purchase. Currently in fourth place



and not yet profitable, Prudential Real Estate Affiliates Inc. aims to be first in coming years. "They have staying power and are spending huge amounts of money," worries Richard J. Loughlin, CEO of No. 1 Century 21 Real Estate Corp., owned by Met Life.

On other fronts, however, the Pru's progress has been more fitful. Although it has been selling insurance in Japan

■ PRESIDENT BARBARO'S 'LIVING BENEFITS' FOR TERMINAL ILLNESSES WAS INNOVATIVE—AND IT EARNED GOOD PUBLICITY

for 10 years, it is still latecomer overseas. The Pru recently secured footholds in Korea, Taiwan, Spain, and Italy, and is eyeing a possible loosening of restrictions on foreign insurers in Mexico. But it lags behind rivals. The Pru is also moving into credit cards. Some Prudential watchers expect the insurer to begin an aggressive push once the current card wars subside. Nonetheless, the Pru so far has issued a mere 320,000 cards through a bank it owns in Georgia—half of them to Prudential customers. That's a pittance measured against American Express' 36 million.

Much of the Pru's heartening financial performance lately has derived not from financial services but investing. The Prudential, which invests \$200 million every business day, became very conservative in 1991, focusing almost exclusively on government and investment-grade bonds and shying away from equities. That proved a sound, if uninspiring, bet: The bond market was buoyed by steep Federal Reserve interest-rate cuts. But Vice Chairman Keith admits the Pru could have gotten an even richer payoff if it had made a stronger stock play.

With interest rates at record lows, the Pru will be hard-pressed to repeat 1991's bonanza. The company's capital growth in 1992's first quarter was just 3.1%, and that continues, 1992 performance will be little better than half of 1991's. "Unless there's another bond market rally, which is unlikely, they won't get those same massive capital gains," says Lee Slavutin, head of Manhattan insurance consultant Stern Slavutin-2 Inc.

That's no matter to Winters. "By taking risk out of the enterprise, we are well-positioned for the future," he says. After the pell-mell growth of the 1980s, the Prudential has again become true to its name. Yet too much prudence could be the biggest risk of all.

By Larry Light in Newark, N.J.

■ SAYS KEITH, PRU'S CHIEF INVESTMENT HONCHO: 'WE BUILD BUSINESSES, WE DON'T TRADE THEM AWAY'



THE SWISS COME OUT OF THE VAULT

Their secretive bankers are turning into ferocious traders

Lunched intently over a conference table, puffing a Philip Morris and sipping a Diet Coke, Marcel Ospel is the model of a modern Swiss banker. A born trader who left school at 15 to apprentice with a stockbroker, Ospel, 42, is spearheading a high-visibility move by Swiss Bank Corp. into the rough-and-tumble world of trading in options, futures, swaps, and other high-octane financial derivatives. "These are the products of the '90s," notes Ospel, an SBC board member. "We want to be at the forefront of the business." Only a few years ago, such brash talk would have earned Ospel the scorn of more conservative colleagues all across Switzerland. Not anymore. While the raging Tokyo stock market forces stunned Japanese bankers to beat a retreat from international markets, it's the once-stodgy Swiss, flush with capital who are suddenly raising eyebrows. In securities trading, money management, and trade finance, Swiss banks are emerging as the ones to beat. Some have already turned their international units into potent money machines. In his hillside office overlooking church spires of downtown Zurich, Peter Knabenhans, chief trader for Credit Suisse, quietly tallies up the revenues of its London-based affiliate, Credit Suisse Financial Products, has produced a record year on its \$300 billion portfolio. "In the first quarter, \$120 million," says Knabenhans. "Ditto for the second quarter. It's almost unbelievable."

BOMBS. While trading is perhaps the most volatile and high-risk area of international finance, the Swiss have little choice but to look outside their own borders for growth. Their once formidable ability to attract deposits from around the world has ebbed badly. A big one: a nagging recession coupled with stubborn inflation that has eroded confidence in the Swiss franc. And global pressure has forced the Swiss to roll back their longtime pledge of absolute secrecy. Since 1987, bankers say, the estimated \$1.1 trillion in assets the Swiss manage for investors at home and abroad has barely grown at all. "We're losing special anymore," concedes Baer Chairman Nicolas J. Baer. "We have to compete." The recession has also battered bank



A TOUGH NEW STYLE AT BASEL'S SWISS BANK

balance sheets, prompting Moody's Investors Service Inc. to strip Credit Suisse and Swiss Bank of their prized AAA credit ratings. A drop of as much as 40% in housing prices is threatening to produce large losses in the banks' \$300 billion home-mortgage portfolio. And commercial real estate vacancy rates are rising, with some 11.5 million square feet of office space now unoccupied in Zurich alone. "There are some unexploded bombs in domestic real estate," admits Credit Suisse executive board member Hans Geiger. "We'll have some headaches."

The Swiss already have their share of

international headaches. To be sure, the major Swiss banks, with capital ratios still far exceeding international standards, haven't fallen to the level of such beleaguered institutions as Citicorp. Says SBC President Walter G. Frehner: "We're sleeping very well at night." Yet SBC is stuck with such shaky foreign credits as \$140 million to the late publisher Robert Maxwell and part of a \$150 million loan to the Reichmann real estate empire.

NEW PLAYERS. All of these pressures have spurred the Swiss banks' new focus on performance. Since 1990, when Credit Suisse rescued its First Boston Corp. affiliate, burdened at the time with \$1.1 billion worth of problem bridge loans, CS has seen its stock market profits explode as Wall Street has blossomed. Swiss Bank, meanwhile, has been earning the envy of competitors by issuing new varieties of certificates of deposit that permit depositors to play the stock market. Based on equity swaps, the new CDs are one of the most successful products to emerge from a joint venture formed in 1990 between the bank and O'Connor & Associates, one of Chicago's most profitable options-and-futures trading groups. With O'Connor now accounting for 1% of the daily trading volume on the New York Stock Exchange and 8% of U.S. equity-option activity, the venture generated more than \$70 million in revenues for SBC in 1991, says SBC's Frehner. Swiss Bank recently took over the entire partnership.

Meanwhile, Union Bank of Switzerland, already a major player in the London stock market, has taken over Chase Manhattan Corp.'s U.S. money-management unit and emerged as one of Wall Street's top program traders. Even the smaller fry are on the move. Bank Baer, with just \$4 billion in assets, is launching its first mutual fund in the U.S.

Back home, the Swiss are cutting costs and restructuring. After last year's scrapping of a longtime pact that barred lenders from competing on interest rates, nearly 100 small banks have merged with larger competitors. The big banks are rushing to replace branches with automatic teller machines. And

they are moving forcefully to modernize Swiss bourses to generate even more trading profits. What sells now is performance—and the Swiss seem determined to come through, even if it means they must take some uncharacteristic risks.

By William Glasgall
in Zurich

ON A ROLL

	Earnings per share*		Percent change
	1991	1992**	
UNION BANK OF SWITZERLAND	\$223	\$263	18%
SWISS BANK	26	29	12
CS HOLDING	197	218	11

*Bearer shares

**Estimate

DATA: BANK JULIUS BAER

SURE, PROFITS ARE ON THE RISE, BUT...

Probably not as rapidly as many analysts had predicted

Corporate profits are on the march—if you believe what brokerage-house analysts have to say. Analysts predict that earnings of companies in the Standard & Poor's 500-stock index will leap 18% in the second quarter alone—the biggest upswing in the past 10 fiscal quarters. And their prognostications for the year are equally glowing, averaging a 35% profit rise over 1992. If you believe the profit prophets, earnings will replace lower interest rates as the engine driving the stock market upward in the months ahead.

is disappointing, you could wind up with a year like 1990—which was a down year for the market.

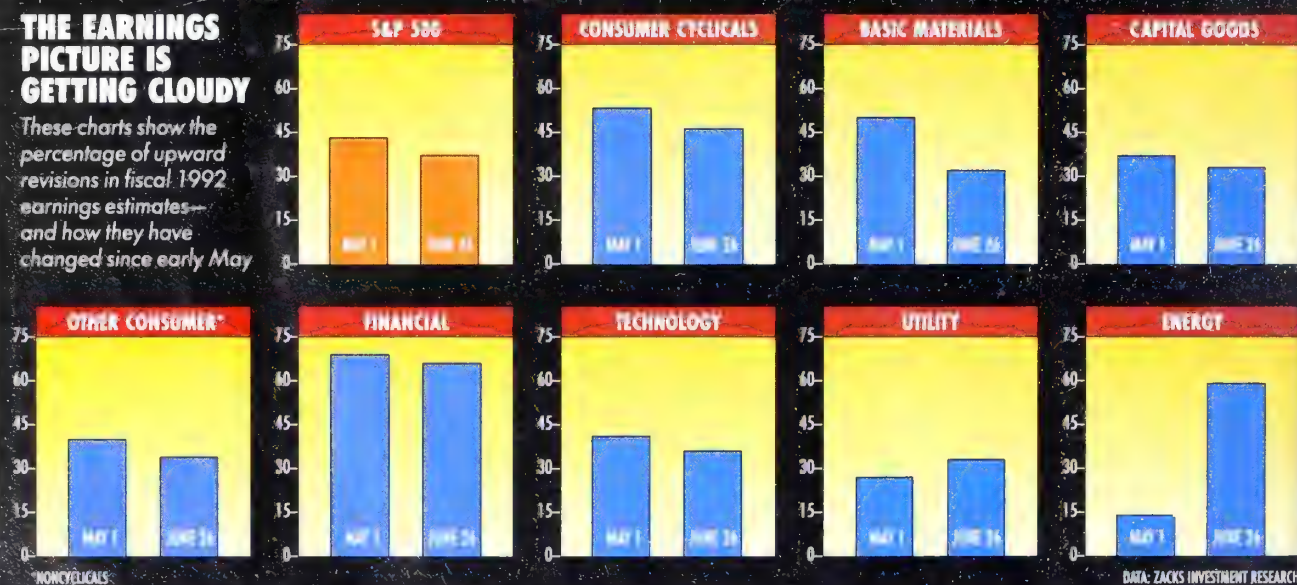
Probably the most ominous profit indicator is the gauge of analyst-estimate revisions. When analyst upgrades rise and downgrades decline, it's often a sign that investors are in for pleasant surprises when companies actually announce their earnings. Likewise, a trend toward more earnings downgrades is often a sign of bad news. By this barometer, the trend has been decidedly downbeat in recent weeks. According to Zacks

Another sobering trend is analyst tendency to revise downward only the second-quarter figures, leaving the third- and fourth-quarter earnings estimates alone. So if the economy does not stage a solid recovery later in the year, earnings will not rise as predicted, and stocks will have one place to go. Down. "I think expectations are awfully high overall," notes Melissa Brown, chief quantitative research at Prudential Securities Inc. "If you look at top-down estimates [by economists], the growth in earnings will be only 7% to 8% this year"—one-quarter of the rate predicted by analysts who look at individual company earnings. That could be a sign of excessive optimism—or, to put it another way, inadequate pessimism by the analysts now downgrading their estimates.

A glance at the Zacks charts shows where the potential trouble lies. Consumer cyclicals—including airlines and high-flying auto stocks—are among the most vulnerable. Likewise, basic materials companies—steel and chemical—are

THE EARNINGS PICTURE IS GETTING CLOUDY

These charts show the percentage of upward revisions in fiscal 1992 earnings estimates—and how they have changed since early May



But the picture isn't quite as cheery as it seems at first blush. Yes, corporate belt-tightening and productivity gains have led to strong growth in profits—but much of the strength comes in comparison to 1991, which was a decidedly crummy year for corporate earnings. And even the most upbeat analysts are ratcheting back their second-quarter earnings predictions in virtually every sector (chart). That may foreshadow a spate of negative earnings surprises, particularly if the economy sours. "People are betting on a significant earnings turnaround," notes Michael L. Schonberg, chief investment strategist for UBS Asset Management. "But if the economy

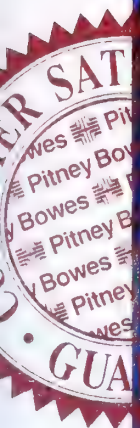
Investment Research, a Chicago-based company that tracks earnings predictions, in the 30 days preceding June 26, upgrades accounted for a mere 37% of 1992 fiscal year estimate revisions for the stocks in the S&P 500. The ratio of upgrades on May 8 was 47%.

ONE PLACE TO GO? The revisions in mid-May were skewed by upbeat earnings news in the first quarter. "Analysts got a little overly optimistic and then started hedging back their estimates for the second quarter," notes Benjamin Zacks, an executive vice-president of the company. Still, the trend toward increasing downgrades does not bode well for earnings in the months ahead.

turning sour, as are capital-goods makers such as machinery and electrical equipment manufacturers and high-technology companies, including the biotechnology companies that were the market leaders throughout 1991.

Only energy companies are seriously bucking the trend. But that hasn't made the profit picture look much better for the rest of the economy. A sustained profit gain for the oil companies would come from an increase in crude oil and natural gas prices. Higher energy prices would mean inflation, higher costs—and curbed production everywhere else.

By Gary Weiss in New York



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BY GENE G. MARCIAL

WHY McDONALD'S IS SIZZLING THIS SUMMER

On Wall Street, very few growth stocks ever come back quite as zesty and exuberant as they once were. But one that's now being pursued by some big investors as a tantalizing "reborn" growth stock is McDonald's. The operator of the world's largest chain of fast-food restaurants has more than 8,700 units in the U.S. and more than 3,600 overseas.

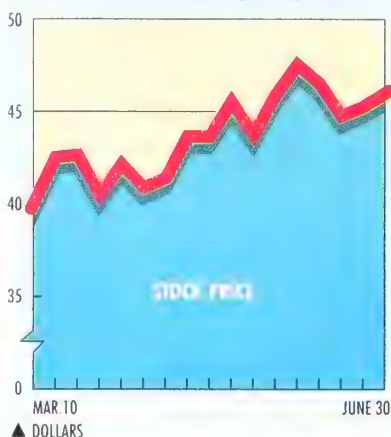
Although McDonald's hamburgers put the company on the fast-growth lane in earlier years, its shares started to lag behind the market in 1990 and 1991, when earnings failed to meet the Street's ever-rising expectations. The institutions started to look elsewhere for a growth play. But this year, something happened: McDonald's hit 47 a share, a new high. Why this change of appetite for McDonald's?

"I think McDonald's is in the process of regaining its lost glory in the stock market," says Stuart Shikiar, managing director at Prudential Securities Investment Management, which steers some \$2 billion. He thinks the stock will move to much higher ground, "most likely in the 60s," over the next 12 months. Says Shikiar: "McDonald's is the new great multinational play."

BURRITOS TO GO. Like many other investors, Shikiar had previously thought the company had "lost control of its program for strong earnings growth." The "big rap" against McDonald's, he explains, was that while its international sales, which accounted for about 40% of operating profits, were going gangbusters, the domestic front wasn't showing much growth. "That's now changing as the company has revised its overall menu for domestic growth," says Shikiar. One example: McDonald's has launched a "value strategy" that discounts the price of certain meals. This strategy is aimed at building up traffic—and it's working, says Shikiar. The chain has also introduced "Dinner at McDonald's," which basically is a menu that's more diverse and higher priced. Also, offerings now include low-calorie hamburgers, chicken fajitas, and burritos.

An analysis by Standard & Poor's notes that the value program already had an impact on this year's first quarter, when McDonald's posted its larg-

McDONALD'S HITS NEW HEIGHTS



DATA: BRIDGE INFORMATION SYSTEMS INC.

est U.S. quarterly sales gain in more than two years.

Shikiar says efforts to boost domestic sales will help earnings jump next year to \$3.15 a share, from this year's estimated \$2.75, and last year's \$2.35. As investors start recognizing the company's renewed potential for fast growth, he says, they will start rushing for McDonald's stock again.

A BIOTECH REACHES FOR DEEP POCKETS

Applied Microbiology, a small biopharmaceutical company that's still in the red, with revenues of less than \$1 million, has always wanted to link up with a big partner with deep pockets. On May 18, it announced that it will acquire Aplin & Barrett, a wholly owned subsidiary of Burns, Philp, a food conglomerate in Sydney, for stock worth \$40 million. Applied's stock, trading at 4¢ a share, has hardly budged on the news. But some pros believe the deal, which would immediately put the company in the black, is heaven-sent.

These pros figure that Applied Microbiology is now worth twice that amount, based on the combined companies' cash flow and earnings potential. Aplin, a major producer of nisin, an antimicrobial agent used in certain food preservatives, posted revenues of \$8.6 million last year and earnings of \$2.3 million.

The deal makes Burns the largest stakeholder in Applied, with 18% of the stock. Applied Chairman David Guttman says he will remain as chairman and CEO, although Burns will get four

of Applied's six board seats.

Aplin's acquisition will give Applied the cash flow it needs to permit a more rapid entry into new areas of biopharmaceuticals, says Guttman. Applied develops antibacterial proteins for treating certain infectious diseases in animals and humans. One raw material the company uses is nisin, which Aplin supplies for Applied products, including Ambicin, a nontoxic agent that kills bacteria linked to ulcers and cancer.

After the deal closes in August, Burns can further raise its stake in Applied to 63%, by paying \$1.5 million. One thing is certain, says Guttman: Burns will help Applied become very profitable. But will it eventually buy the rest of Applied? Says Guttman: "Anything can happen."

A WAY TO BRING HOME THE BACON?

Thorn Apple Valley has nothing to do with apples, but to some smart-money pros, it's a stock to sink your teeth into. Thorn Apple is in the pork-processing business and also makes hot dogs and bacon. Its stock has fallen from 42 a share in January to 28, although earnings have turned around significantly since 1991.

"Based on its current price-earnings ratio of 5, and other measures such as cash flow and book value, the stock is way undervalued," says Ron Strauss, a veteran food analyst at William Blair in Chicago. If the company completes the earnings turnaround now underway—as Strauss believes it will—it sees the stock climbing back to its old high of 44 in a year or so. The market, says Strauss, has been slow to appreciate what's happening at Thorn Apple.

Here's part of what has impressed the analyst: In fiscal 1990, Thorn Apple lost \$3.8 million, or \$1.02 a share, the economy weakened and hog prices rose. But in 1991, the company focused on high-margin meat products and instituted cost cutting and streamlining production and marketing. The result: earnings jumped to a record \$18.7 million, or \$4.23 a share. Strauss expects another record this year, with earnings coming in at \$5.55 a share, and thinks the company will earn \$6 in 1993.

One of the company's closest competitors, Smithfield Foods, trades at a p-e of 10. If Apple Thorn were awarded that kind of a p-e, the stock would soar—to the 50s. Strauss thinks Thorn Apple deserves such a p-e.

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SOFTWARE

THE PC PRICE WARS ARE SWEEPING INTO SOFTWARE

Corporate customers can now find discounts of up to 85%

Learning new software can be bothersome. So much so that once customers know one package, they're reluctant to switch and spend hours learning a new brand. This stubborn fact makes being first to market vital. And it keeps programs such as Lotus 1-2-3, WordPerfect, and dBASE firmly entrenched, even if the companies that created them stumble.

That was before Windows, however. The Microsoft Corp. software makes IBM-compatible PCs easier to use, but it also requires new applications programs that are tailored for the Windows graphical format. In effect, that means the 10 million PC users who have adopted Windows since 1990 are up for grabs. And companies that snag those buyers now could wind up with the kind of money-minting dominance that Lotus Development Corp. enjoyed with 1-2-3.

Voilà: Time for a price war. As software makers scramble for a piece of the new market, discounting is rampant. Most list prices haven't budged, but there are all kinds of incentives to get PC owners to switch brands as they install Windows. And to lure influential corporate buyers, suppliers are pulling out the

stops. They're quietly offering as much as 85% off list. And for an annual fee, Borland International Inc. will provide free software upgrades to any large groups of PC users who want them. Says Paul Brainerd, president of publishing software leader Aldus Corp.: "There is the myth of the retail price and the reality of what major customers pay."

'A BEATING.' The first casualty of the price war has been Lotus' stock. In late June, Lotus cited pricing pressures and soft foreign sales when it warned that profits for the June quarter would not meet analysts' estimates. Already spooked by the free fall in PC-hardware prices, investors trimmed 26% from Lotus' market value in two days. Only a few days later, Software Publishing Corp. issued a similar warning, sending its stock to a new 52-week low. In between, shares in Microsoft and Borland also dipped.

"The suppliers are taking a beating, but we customers love it," says Christine Leatz, manager of office technologies at industrial-equipment manufacturer FMC Corp. An FMC unit in San Jose, Calif., for instance, switched from Lotus 1-2-3 to Microsoft's Excel spreadsheet

for Windows, paying about \$65 per copy for software that lists for \$495. Negotiating helps. "I always tell vendors that talk to their competitors," she says. "Then, they're willing to deal."

The price wars in PC hardware are also driving down software prices. The latest cuts by Compaq Computer Corp. and Dell Computer Corp. are making all but impossible to command the price of yesteryear. In the past, an application was perhaps 15% to 20% of the cost of the computer, says Ben Z. Rose, an analyst at Hancock Institutional Equity Services Inc. With PCs now under \$1,000, "who is going to spend \$400 to \$500 for each package?" asks Rose.

STEADY STREAM. The deepest cuts are in the biggest categories: spreadsheets and word processing. For the average buyer, "these products are getting to be like commodities," says Sanjay Kumar, senior vice-president for planning at Computer Associates International Inc. CA is one of the few software companies to actually reduce list prices, slashing the price of its Windows word processing pack from \$249 to \$99 for the next 90 days.

Selling bundles is another way to wage the price war. Lotus and Microsoft now sell "suites" of software for a low price. The four Windows programs in Lotus' SmartSuite carry list prices totaling \$1,800. But for buyers switching from Microsoft or an older Lotus package, the price can be as low as \$31. Lotus Senior Vice-President Robert I. Weiler says that retains key customers. "These are not crazy deals as much as fundamental change in the average selling prices." To keep up, Borland and WordPerfect Corp. are negotiating to enter a "suite" of combined product WordPerfect's word processing and electronic-mail packages with Borland data-base and spreadsheet programs.

For some suppliers, today's painful cuts may eventually lead to fat profits. As customers settle in with their favorite Windows programs, software makers will collect a steady stream of upgrade fees. But right now, the only one making hay is Microsoft. Partly because it began selling Windows programs first, the company has a big chunk of the market: 72% in spreadsheets, 44% in word processing, and 16% in presentation graphics, according to InfoCor. But before long, the old rule will set in. As more and more customers master these new Windows programs, it will become harder and harder for rivals to get them to switch. Regardless of the price.

By Gary McWilliams in Boston, with Kathy Rebello in San Francisco and Eve I. Schwartz in New York

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PHONE SLEUTHS ARE CUTTING OFF THE HACKERS

Corporations and phone companies join to end long-distance fraud

Once burned, twice smart. After a hacker broke into the phone system of the Christian Broadcasting Network and used it to make \$40,000 worth of calls to Pakistan, the network's vice-president for information services fought back. Paul D. Flanagan programmed the company's phone switch, or PBX, to block all calls to Pakistan as well as the Caribbean and other areas favored by hackers—often drug dealers or hoodlums who sell cut-rate calls to immigrants. The program also cuts off anybody who repeatedly calls from outside trying to make calls through CBN's PBX. Since the first incident in 1987, hackers have tried to enter Flanagan's PBX twice—and failed both times. "I think we've licked this problem," he says.

Flanagan may be overly confident. Phone hackers are resourceful, and estimates of phone-fraud losses in the U.S. range from \$500 million to \$4 billion. But it looks as if phone companies and their customers are starting to bring toll-call cheating under control. For one thing, instead of fighting over who pays for losses, carriers are working with their customers to stamp out fraud—and giving partial protection from losses to those who fully cooperate (table).

IN THE GARBAGE. Like CBN, corporations across the country are securing their phones better. And phone companies are using software that quickly spots unusual calling patterns. Sprint Corp. says its average loss has fallen more than 90% in the past year, to less than \$2,000 per case. TeleChoice Inc., a Montclair (N.J.) consultancy, predicts that losses from PBX toll fraud could fall 60% in the coming year.

For years, the problem seemed almost

intractable. In the case of PBX fraud, the key is obtaining access codes, which traveling employees use to make calls through the home PBX at corporate rates. Thieves watch executives using pay phones or dig through garbage to get the numbers. Until recently, companies wouldn't learn they had been victimized until the monthly phone bill arrived.

These days, the ripoffs can be halted almost as quickly as they begin. American Telephone & Telegraph Co., for instance, has a computer program that looks for unusual calling patterns as

than 1,000 phone lines that were suspected of being involved in fraud.

Sprint also studies calling patterns to detect aberrations but collects data daily, rather than minute by minute. MCI Telecommunications Corp. focuses mainly on traffic coming out of New York, where it estimates that 70% of such calls originate. Lately, it has begun monitoring Los Angeles as well.

Phone companies are also working more vigorously with authorities to track down hackers. Late last year, MCI tipped off New York police to a fraud ring. The cops set up video surveillance of pay phones, while New York Telephone kept track of the numbers that were being dialed. In May, they charged three men with scheming to defraud and accused them of stealing \$130,000 worth of long-distance calls. If convicted, each faces up to four years in prison. MCI aided in 300 arrests last year and expects to exceed that in 1992. "Phone companies are becoming more aggressive," says George M. Deahue, the assistant district attorney prosecuting the New York case.

SIMPLE PLOY. Of course, the hackers are getting more aggressive. "It's like collapsing a balloon," says James Snyder, an MCI investigator. "You squeeze it in one place and it goes bigger somewhere else." Lately, hackers seem to be turning to cellular networks to steal long-distance service. And now the phone companies are wise to the 800-number route into their PBXs, which are entering via voicemail systems. Hackers Once they discover an access number for a voice-mail system, they dial an employee's number. When the system asks for a password,

they try the same number as the employee's extension. If that works, they try to get transferred to a line that they can make outgoing calls.

It turns out that there are several ways to curb entry through voice mail, such as making sure passwords are the same as extension numbers. Phone companies do that, hackers no doubt will figure other routes in. But today, they know that the antihacker agencies will be watching—and perhaps even keeping a step ahead.

By Mark Lewyn in Washington



HOW PHONE COMPANIES ARE CRACKING DOWN ON FRAUD

SPRINT Will monitor overseas calls for suspicious patterns such as heavy calling to unusual destinations. For a fee, will cover losses over \$25,000, up to \$1 million per year per customer location

AT&T Also monitors overseas calls and, in one program starting in August, will cover losses over \$25,000. Will cover customers' losses over \$12,500 if customers spot the fraud before AT&T does

MCI No formal program, but monitors calls from the New York and Los Angeles areas, and alerts customers to suspected fraud. Will cover 30% of the first loss suffered by a customer. Recommends ways to stop fraud

they occur, much the way New York Stock Exchange computers spot patterns that might signal insider trading. That requires speedy computing: Traditionally, call details went onto magnetic tapes and weren't looked at until the end of each month. AT&T now alerts customers as soon as a threshold is exceeded. For example, it would notice if many calls are suddenly placed to an 800 number that's intended for internal corporate use. Since May 7, when it got a government go-ahead, AT&T has cut off all access to 800 numbers from more

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PURE RESEARCH, COMPLIMENTS OF JAPAN

As the U.S. cuts R&D, NEC and others pay Americans to just think

Leaping to a blackboard that covers a wall in his corner office, William Bialek scrawls out a mathematical formula. Bialek, one of the top scientists at NEC Research Institute Inc. in Princeton, N.J., is wrestling with a daunting challenge. He's trying to understand flies. How do they fly so straight, even in the wind? How do signals move from their elaborate eye cells, through tiny nervous systems, to their fast-reacting flight muscles? "I'd like to know whether there are some general principles working here," says the burly biophysicist.

That kind of unfettered curiosity is just what the Japanese electronics giant wants from the American scientists it has assembled at its two-year-old, \$32 million research complex. At a time when many U.S. companies are cutting back their research and development budgets and pushing to involve scientists more directly in product development, the Japanese are taking a much different tack: They want to overcome their long-standing weaknesses in basic research.

Tapping the talents of scientists in the U.S. is one key to that strategy. Japanese companies from Hitachi, Toshiba, and Sony to Shiseido, a health care concern, have set up American labs. Every major U.S. research university now has at least one Japanese corporate research facility nearby, says Stephanie Epstein of the Center for Public Integrity, a Washington-based group critical of the growing scientific links between the U.S. and Japan.

At Princeton, NEC Corp. has tried to create an environment where scientists are free to explore fundamental questions in physics, computer sci-

ence, and materials. Although the research clearly follows the lines of NEC's main businesses in computers, electronics, and communications, the lab urges its scientists not to see themselves as product developers. "The emphasis is on breaking away from incremental progress and moving in new directions that are expected to be risky," says physicist

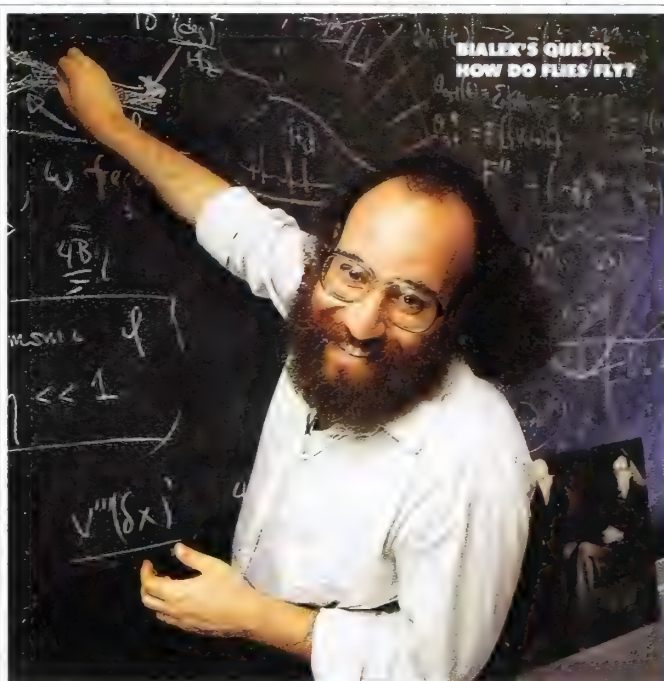
Richard A. Linke, a senior research scientist who left AT&T Bell Laboratories for NEC. The \$28 billion company has a global network of applied scientists and engineers, including some in Princeton to follow up on any breakthroughs.

To build its research hothouse, NEC recruited some 45 physicists, computer scientists, and materials researchers from the likes of Bell Labs, the University of California at Berkeley, Massachusetts Institute of Technology, and other top R&D centers. Set in a wooded corporate park near Princeton University and SRI International's Sarnoff laboratory, NEC's new facility operates more like a university than anything else. In place of a rigid bureaucracy, a five-member board of scientists allocates funds and oversees projects. This arrangement was the brainchild of the lab's founding pre-

sident, Dawon Kahng, a transistor and semiconductor memory pioneer who worked for many years at Bell Labs. Kahng, who died in May at age 61, wanted to be sure U.S. scientists weren't stifled by the detailed five-year plans Japanese companies typically use to manage research.

SERIOUS GAMES. In the lab's freewheeling atmosphere, physicist Eric B. Baum challenges computers to games of chess and go. "There's been very little conceptual progress in computer chess since 1957," says Baum, who got his Ph.D. from Princeton University. Such games offer insight into how humans and machines "reason" differently. Even the best computer programs must rely on brute force—processing a myriad of options—instead of the more elegant, seemingly intuitive method that humans use. Baum's goal: discoveries that lead to machines capable of subtle forms of reasoning.

Advances in computers and communications are the ultimate aim of other projects, too. Physicist Karvel Thornber, a 20-year veteran of Bell Labs, works on fuzzy logic, a form of mathematics that helps machines deal with complex, uncertain tasks such as stock market forecasting. Linke is exploring properties of microscopic sensors that may some day be key to high-speed optical computers that rely more



RESEARCH TARGETS AT NEC'S PRINCETON LAB

NEURAL COMPUTATION

By studying insects, researchers hope to discover how nervous systems process information

FUZZY LOGIC

Scientists are experimenting with software that may help computers better handle ambiguity

OPTOELECTRONICS

Researchers want to build powerful computers that use light beams and microscopic lasers instead of electronic circuitry

SUPERCONDUCTIVITY

To try to unravel its mysteries, scientists are studying how gallium arsenide and other materials behave when lasers are fired through them at temperatures approaching absolute zero

DATA BW

waves than on electronic circuitry. C tries to spur collaboration between artists with noon volleyball games bridge. It also works hard to bur- its American image. School groups the lab often, and in July, 80 fifth- ers from inner-city Trenton schools take two weeks of science classes. part of being a good corporate citi- ' says physicist Tineke Thio, who is g superconductivity research.

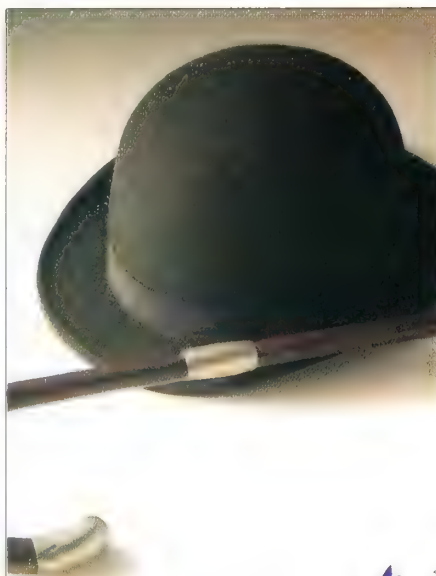
Y CONNECTION? For all its efforts to ar as American as possible, the lab many contacts with Japan. Linke is g lasers developed by NEC there. mber works on fuzzy logic with NEC lopment labs in the U. S. and Japan. icist Peter A. Wolff, a former head ne Francis Bitter National Magnet oratory at MIT, is collaborating with ese applied scientists in optical uting. Still, company officials are y of a one-way relationship with To- "We've tried to avoid appearing to ast a channel for American technol- back to Japan," says Arthur Torsig- general counsel for the lab.

ost of the Princeton scientists could less about that. "I think what I'm g here is more or less for the good umanity. Everything I'm doing is ished in the open literature," says n. "I wish American companies contributing to basic research like ' Indeed, some at NEC feel they've big edge over their colleagues in orate America's labs, where many tists have been shifted in recent s to applied work. "The rest of the d is very, very urgently trying to e research profitable. It's a national ," says Linke. He likens the atmo- re at Princeton to the glory days at Labs several decades ago. The NEC aments Berkeley computer scientist el A. Harrison, is now the "only orate lab] devoted to unrestricted, ected research in the U. S."

ether NEC can keep this spirit alive ins to be seen. Officials point to the any's consistent support for R&D, in tough times. But NEC's net in- fell 43% in the last fiscal year, and delayed plans to expand the lab's "We've just made a little slow-," says Daizaburo Shinoda, acting lent of the lab, which has an annu- dget of \$26 million.

ow, though, curiosity is flourish- Princeton. Posters in the corridors ght topics that NEC investigators robing. "What is the interplay be- knowledge representation and ne or human learning?" asks one. ing such questions should keep U. S. scientists busy well into the century.

Joseph Weber in Princeton, with Neil in Tokyo and John Carey in ngton



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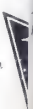
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Developments to Watch

EDITED BY ROBERT BUDERI

CD-ROMs: YOU PAY ONLY FOR WHAT YOU DECODE



Computer disks known as CD-ROMs store vast amounts of data and often come with equally big price tags: Since there has been no way to track how much data will be used, CD-ROM publishers have charged for everything on a disk. But not for much longer. Cryptologics Inc. in New York City has developed a meter that gauges data use

as an electric meter tracks power demand. The system depends on a decryption program, installed on disk, that keeps track of how much data is decoded, then deducts its cost from a prepaid credit. Cryptologics' head, J. Sprague, who is also chairman of National Semiconductor Corp., is working initially with Mead Data Central Inc., which owns the Lexis legal data base. Cryptologics proposes to store the Lexis data that's most often used on CD-ROMs, easing the strain on Mead's mainframes. It will charge as little as \$10 per disk, keep 30% of the usage fee, and pay Mead the rest. The first product may arrive early next year.

THE DEMOCRATS' PLAN TO GET MORE R&D INTO CIVVIES

As the U.S. loses its high-tech edge, politicians, industry experts, and consultants have devised myriad plans to restore competitiveness. Most have sunk without a ripple. But on July 1, the Senate Democratic leadership announced a strategy designed, in the words of Senator Joseph I. Lieberman (D-Conn.), to "fix what's wrong with the economy." The premise is that federal R&D spending—on basic research, space missions, and defense—doesn't feed enough technology to civilian companies. So, the plan recommends a \$1 billion in money for applied research, such as the current high-performance computing project. The Democrats would double that doled out through the Small Business Innovation & Research Program and create a consortium to help industry commercialize innovations. They would also raise funding for engineering education, job training, and promoting exports. Many of these ideas are in legislation before Congress, and Senate Democrats hope a united front will secure passage. The biggest hurdle is cost: \$22 billion in new money over five years. To make that more palatable, the Democrats want to move some projects into the Defense Dept. budget.

TOSHIBA TUTORING COMPUTERS IN CONCEPTUAL THINKING

Computers are great problem-solvers. But can they be made to dream up ideas as well? Toshiba Corp. software engineers think so, and they have spent three years trying to prove it. In late June, they unveiled a prototype piece of programming modestly nicknamed the Fountain of Wisdom. The Fountain is written in an advanced computer language

called Prolog. The idea is to feed the program a series of declarative sentences—for instance, "steak equals a broiled piece of meat"—from which it extracts basic principles on fields such as cooking, chemistry, or computer science. Acquiring widespread knowledge on a given subject takes half a day on a workstation. But once that's done, the program can cull through commercial data bases, drawing analogies and conjuring concepts. For example, having learned about multimedia computers that handle data, voice, and moving images, the Fountain recently suggested livening up an electronic business directory with color pictures stored on CD-ROM.

That's an obvious idea, but Toshiba researchers contend others are brilliant. Such as? The company won't say.

A NEW SPIN ON ELECTRIC-CAR BATTERIES

Now that most major carmakers are planning electric vehicles, work is proceeding rapidly on better batteries. On June 23, American Flywheel Systems Inc. in Seattle received a patent on a battery it says will let cars get 600 miles per charge—five times the current distance—without the toxic waste and corrosion problems of lead-acid models.

The battery, charged from a 110-volt outlet, relies on kinetic energy. During charging, electrical current causes two rotors, suspended by magnetic bearings in a vacuum, to spin at high speeds. Once the charge is complete, the rotors continue spinning. Twenty such batteries generate enough energy to drive a car-size motor for 43.6 kilowatt hours, vs. 13.6 kwh on General Motors Corp.'s Impact prototype electric car.

A federal research program on the technology ended in 1983 before delivering a commercial product. Edward W. Furia, American Flywheel's president, attributes his better luck so far to computer-aided engineering, new composites that make the battery lighter, and advanced magnetic bearings. He hopes to build a demonstration model within a year.

ONE TASTE OF THIS STUFF GIVES MINNOWS THE MUNCHIES

It sounds like an angler's dream: Rub magic elixir on a lure, drop it in the water, and send fish into a feeding frenzy. While researching how the catfish brain receives and processes information, neurophysiologist John T. Caprio at Louisiana State University at Baton Rouge discovered "superbait"—an enticing mixture of amino acids that causes an involuntary snapping response in fish.



When a cotton ball soaked in the concoction, dubbed Gotta Bite, is dropped into an aquarium, fish begin chomping not only on the cotton ball but also on nearby gravel. Besides benefiting fishing enthusiasts, Gotta Bite could cut costs on catfish farms: Some fish grown in captivity lose their appetites and die. Raising fish is big business in the South, where 90% of commercial catfish are from farms. An unnamed company is licensing LSU's patented technology, and Caprio is working to develop a similar bait for bass. Scientists also plan to fashion amino-acid mixtures that stimulate pike and other fish.

Where will your business More to the point, where your business tomorrow?

The first answer is on your calendar, of course.

The second answer is more elusive, perhaps.

If you're running a major corporation, you're trying to work out your corporate strategies in the face of an uncertain economy, intensified competition, changing consumer attitudes, shifting fiscal policies and capricious financial resources.

And the more global your corporate perspective is, the harder it has to be to shape future plans as the world's political, economic and sociological orders convulse.

Inevitably, decision-making at the top still depends in a large measure on what you yourself see and hear and understand. That suggests that one of the ways executives try to find tomorrow's directions is to get out there, see things with their own eyes, and become involved face-to-face with real-time situations and real, live people whose input they want and need.

So if you're doing that, great.

If you're doing it with a company airplane, that's even better.

You know from experience how much more you can accomplish by using your own corporate aircraft instead of the airlines. You know how it helps you make the best use you can of two things you never seem to have enough of—your time and energies.

And maybe—just maybe—you also know that your travel requirements are outgrowing your present airplane. It happens.

If it's happening to you, let's get together and at least talk about the Gulfstream IV.

We know the Gulfstream IV isn't the appropriate airplane for every organization.

It is, after all, a business jet with a well-deserved reputation for being the finest aircraft of its type. It has a combination of range, speed, size and flight management technology that results in operating



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capabilities you find only in the newest generation of liners. And we can't hide the fact that owning one is a substantial investment.

But for corporations—and governments, too—that want or need the performance the Gulfstream IV offers at their disposal, this amazing airplane can return significant dividends in terms of its versatility and productivity.

Consider your own situation.

When you need to go to different continents, the Gulfstream IV can take you and your key executives nearly 5,000 miles non-stop in about 9 hours. Global access with uncompromised timeliness, convenience and security is a Gulfstream tradition.

When you need to go to places where airlines don't often or at all, the Gulfstream IV can take you to wherever in a single day and still get you home in time for supper.

It's like having two airplanes in one.

And however you use it, the Gulfstream IV brings unequalled passenger comfort, engine reliability and systems dependability to every trip it flies.

If you've come this far with us, you have to be the kind of executive that doesn't overlook any opportunity to improve your company's chances of being and staying a major player.

So take us up on our invitation to talk about the Gulfstream IV. Better still, let us take you and your key executives on a full scale business trip you have to make somewhere, at home or abroad. Robert H. Cooper, Senior Vice President, Gulfstream Marketing, would be delighted to discuss the idea with you, and he's easy to get in touch with at (912) 964-3234.

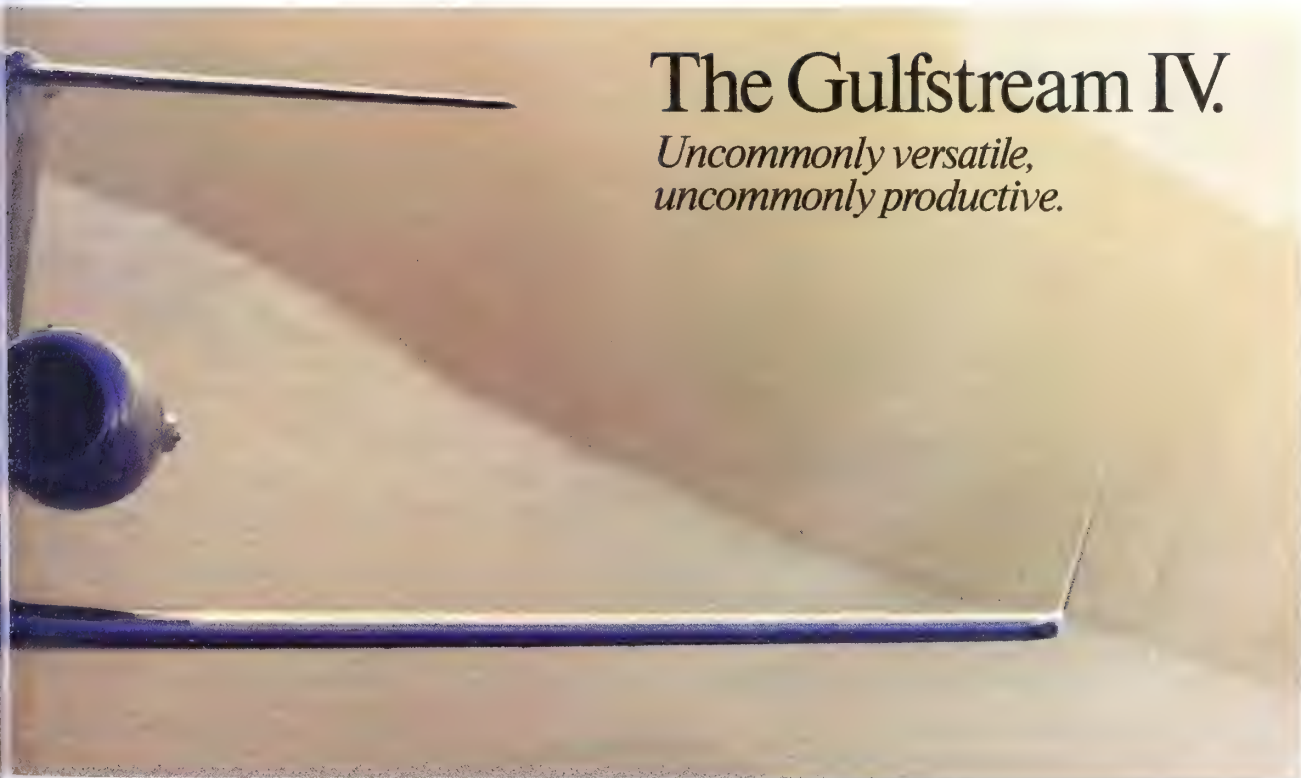
You see, we think just like you do.

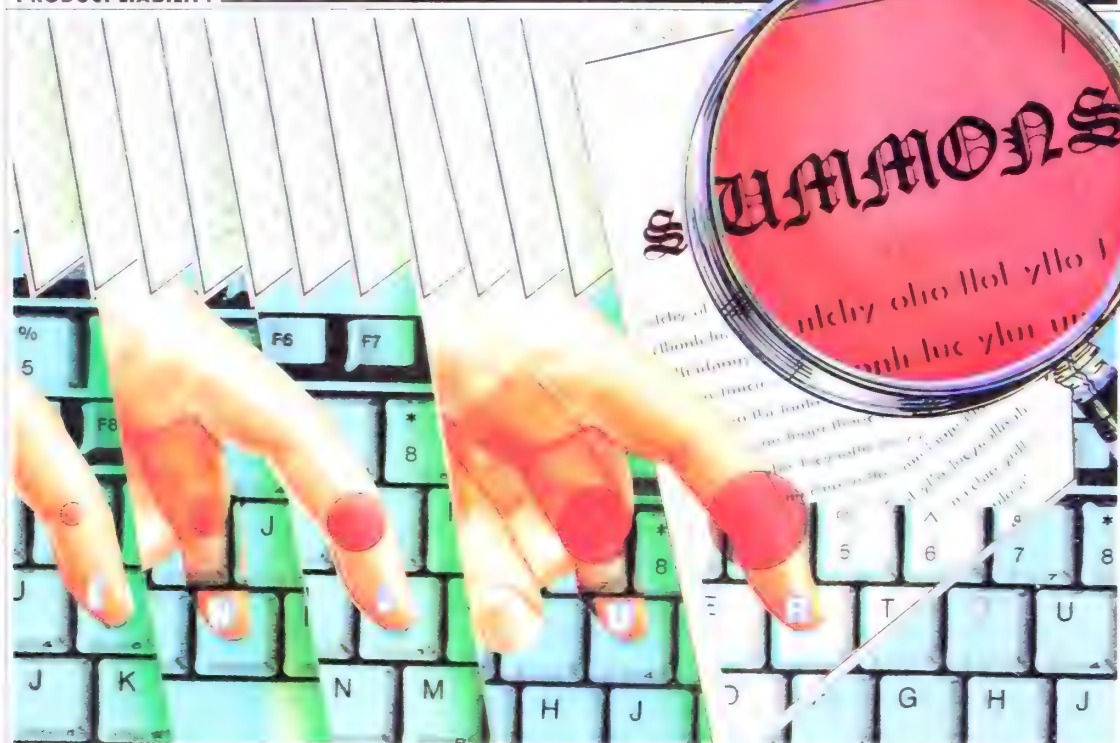
When it comes to a decision about the Gulfstream IV, nothing takes the place of being there and seeing things for yourself.



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*Uncommonly versatile,
uncommonly productive.*





REPETITIVE STRESS: THE PAIN HAS JUST BEGUN

As workers' injuries mount, VDT makers face an onslaught of suits

Reporters at *The New York Times* didn't know what hit them. After the Metropolitan and Business Day desks switched to a computer system with Atex Inc. keyboards last summer, upwards of 100 reporters and editors began complaining about wrist and other pains. The *Times* didn't have such sweeping problems with its old system, and no one knew what was causing the injuries. But before long, reporters were out of commission for weeks or even months. "When it happened, it happened very quickly," says one of the injured.

The *Times* has since taken steps to make its reporters and editors more comfortable, but for some, the damage has already been done. Roughly a dozen *Times* staffers are preparing for a long, nasty brawl with Atex and its parent, Eastman Kodak Co., in court. They're filing suits claiming that Atex keyboards had design flaws. The plaintiffs will argue that the equipment manufacturers knew or should have known about the defects, yet failed to warn users—charges Atex and Kodak vehemently

dispute. (Some of the same models are used by BUSINESS WEEK.) "The Atex system was state-of-the-art when it first came out in the early 1970s, and it has been improved upon steadily since then," says Edward J. Burns, a Rochester (N.Y.) lawyer for Atex and Kodak.

The *Times* cases are part of a new legal assault that has all the signs of becoming one of the largest—and most contentious—litigations of the decade. With more workers complaining of repetitive-stress injuries (RSIs) from extended computer use, the courts are being flooded with damage claims. Among scientists and doctors, the cause and severity of such injuries are fiercely debat-

Is this another asbestos?
Some say the only common
link between the two is the
lawyers filing the suits

ed. And researchers are at a loss to explain why the same equipment causes injuries in some offices and not others. But plaintiffs' lawyers, such as Manhattan attorney Steven J. Phillips, are calling the injuries an "epidemic" and comparing the swelling suits to the massive litigation over asbestos.

RSIs are muscular or skeletal injuries of the hand, wrist, and other areas that bear the brunt of repetitive motion. Also known as cumulative-trauma disorders, the injuries have nearly doubled since 1985. RSIs in offices and factories

are responsible for 56% of all workplace illnesses—185,000 reported cases in 1992. Workers' compensation claims and other expenses from these injuries may cost employers as much as \$20 billion a year, estimates Aetna Life & Casualty.

ROUND ONE. Despite the growing dimensions of the problem, defense lawyers say the only common link between the hand and the killer asbestos is the lawyers filing the suits. Still, the plaintiffs' case has one round one: A prominent federal judge in Brooklyn, Jack B. Weinstein, agreed in June to treat the hand-injury cases in the same fashion as asbestos and other "mass torts." He consolidated 44 of the suits into one giant lawsuit that lets plaintiffs' lawyers join forces. The move gives the cases more credibility—that is, that attracts even more litigation.

The vast majority of suits are filed by typing reporters, data processors, and telephone operators against such manufacturers of their equipment as American Telephone & Telegraph, Unisys Corp., and others. That's because workers' compensation laws bar virtually all employees from going after their own companies and curb payouts. But the Americans with Disabilities Act, which takes effect July 26—may make it easier for workers who become disabled on the job to sue employers.

Employers are already being hit in Europe. In December, a British court found that the failure of British Telecommunications PLC to provide suitable chairs "substantially contributed" to



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venture in the U.S. In trade, we have joint-ventures in container manufacturing in Thailand and in computers in England. In finance, we're Korea's leading handler of underwriting, brokerage and M & A transactions. And we continue to make impressive international advances in oil refining, machinery, insurance, computers, paper and shipping as well.

Rely on reliability.
Rely on SSANGYONG.



Legal Affairs

and the state process to the product market. Such a case is not as likely as the state court process, which is more likely to be influenced by the state's economic and political interests.

But, as the state court process is more likely to be influenced by the state's economic and political interests, it is also more likely to be influenced by the state's economic and political interests.

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Doctors agree that the injuries are work-related, but scientists can't pinpoint exactly what causes them

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HOW COMPANIES ARE RESPONDING

WORKSTATION SOLUTIONS

Aetna Life & Casualty replaced World War II-era chairs with ergonomically designed ones with lower-back supports, adjustable seats, and armrests

SPECIALIZED TRAINING

U.S. West created "Worksmart," a one-on-one operator-training program. Operators' work habits are videotaped and analyzed for work speed and posture. Exercises help stretch and flex hands and wrists. A metronome helps operators work at a smooth pace

TOTAL OFFICE ENVIRONMENT

Los Angeles Times created an "RSI Room," complete with hand weights and ice packs for employees recuperating from repetitive-stress injuries. Added hourly "Take A Break" reminders to in-house software. Developed three new keyboards

DATA BW

and that workers pre-disposed to the injuries "be given reduced output quotas or alternative work." But the doctor added that the keyboards were "the least significant factor" in getting RSI. Atex declined to discuss the memo because its release is on appeal.

As such cases play out, the injuries will likely spur other kinds of battles. Management

ly the same arguments: The equipment was flawed, and the manufacturers knew or could have known about the injury risks but failed to warn. IBM, for one, is fighting a handful of suits around the country, including a case in California by Lorraine Engstrom. The data-entry clerk claims that after typing on an IBM for about a year, she developed carpal tunnel syndrome—in which the nerves serving the hands are compressed—and was unable to work. IBM wouldn't comment on the case specifically, but spokesman Brian Doyle says in general that "our products are designed and safe to use."

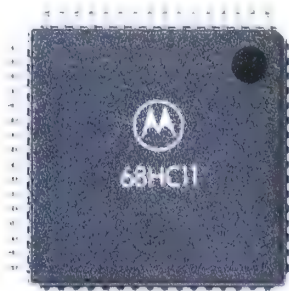
ALTERNATIVES. The suits against Atex are among the most numerous. They allege that the Atex keyboards force users to slam down the keys as though they're "pounding their fingers into cement," says one lawyer. Another alleged problem: certain keyboard models are too high, which could strain the wrists. As proof that Atex knew about such problems, the plaintiffs' lawyers point, in

part, to events in Australia: By the mid-1980s, the country had a near-epidemic of RSIs involving computers. Atex denies those allegations emphatically.

At the moment, plaintiffs' lawyers are fighting for internal Atex documents that they say support their claims of prior knowledge. One key document obtained by BUSINESS WEEK in the court file is an April, 1990, memo by a Kodak human-factors expert, William H. Cushman. He found that the high Atex keyboards far exceeded keyboard height standards in Germany. The memo also states that a Kodak medical authority on RSIs recommended that Atex provide forearm rests with the high keyboards,

lawyers are already urging companies to dust off agreements with hardware providers to see whether they can sue for damages on the ground that the RSIs amount to a breach of contract. Meanwhile, the federal Occupational Safety & Health Administration is preparing ergonomics standards, but they won't be ready for years. And until science provides a definitive answer, the courts will be left to sort out who is responsible for the injuries and pain that have become a growing part of the computer age.

By Michele Galen in New York, with Maria Mallory in Pittsburgh, Sara Savolop in London, and Susan Garland in Washington



The Operator.

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LET YOUR CALLING CARDS DO THE SHOPPING, THE FAXING...

Forget to buy your mother a birthday gift? MCI Communications Corp. wants to come to your rescue. The No. 2 long-distance company is developing a concierge service for its calling-card holders. MCI won't pick up your dry cleaning, but it does hope to work out arrangements for delivering a vase or scarf to your mom's house.

The service, expected to start later this year, may not have any advantages over calling Spiegel's or Tiffany's. But it shows just how far calling cards have come since American Telephone & Telegraph unveiled the first one some 40 years ago.

These days, as growth is slowing in the \$55 billion-a-year long-distance market, AT&T, MCI, and Sprint have shifted their competitive focus to the calling-card business. All of the cards let holders do what AT&T's original card did: make calls from the road and charge them to a home or business number. But competition has led to a proliferation of extra services—some

HELPFUL HYBRIDS. Getting a card is simple. Call 800 225-5288 for AT&T, 800 999-4400 for MCI, and 800 877-7746 for Sprint. The cards are free, and you can get one even if you don't subscribe to the carrier's long-distance service.

Another way is to apply for a calling card combined with a credit card. AT&T's Universal Card, for instance, lets you

charge calls and also serves as a Visa or MasterCard. Sprint has a deal with American Express whereby the credit-card number doubles as your calling-card number. Calls are billed to your American Express account. Unlike regular calling cards, though, such hybrids require a credit check and may charge an annual fee.

All three long-distance carriers offer incentives to bring you into their camp. Sprint will give you 100 free minutes of calling time if you sign up. And if you buy a Sony phone, Sprint will throw in an additional 120 minutes. MCI is giving customers an hour of time for every rival calling card they send in for disposal, up to a maximum of four hours. If you buy a bag of Lay's or Ruffles potato chips and send in a coupon, MCI will give you

30 free minutes. And you can get a further \$15 worth of time if you also sign up for its long-distance service.

FAX-FORWARDING. Of the extra calling-card services, free speed dialing is one of the more popular. This lets you call often-dialed numbers using a two-digit code. Without

speed dialing, you would have to punch in the 10-digit number you're calling, plus your calling-card number. Even with MCI's version of speed dialing, though, you must punch in a 10-digit MCI number, your calling-card number, the star sign on the phone, and the two-digit number



WHAT THE MAJOR CARDS OFFER

	AT&T	MCI	Sprint
AUTOMATED THREE-WAY CONFERENCING	No	No	Yes
BRAILLE CARD	Yes	No	Yes
COUNTRY-TO-COUNTRY CALLING	Yes	Yes	Yes
ELECTRONIC MESSAGE DELIVERY	Yes	Yes	Yes
INFORMATION SERVICES*	No	Yes	Yes
MAKING MORE THAN ONE CALL WITHOUT HAVING TO REDIAL THE CARD NUMBER	Yes	Yes	Yes
SPEED DIALING	No	Yes	No
VOICE RECOGNITION SERVICE	No	No	Yes

* Includes sports, weather, news, and stock market reports
DATA TELECHOICE INC.

Yes

Leisure

ANKLES AWEIGH: NOTES FROM A BUNGEE JUMPER

'Do you want to fly?" asks Mike, the bungee-jumping operator. His voice combines the excitement of the moment with the boredom of repeating himself 40 times a night. I am only a little nervous as I stand in the bucket of a crane on a Manhattan pier, 150 feet above the Hudson River. This is, after all, my third jump. My first two, on the South Island of New Zealand, a birthplace of modern bungee jumping, were another matter.

It had taken me a year of thinking about bungee jumping before I took the plunge. Whenever I had imagined throwing myself off a bridge with only a big rubber band attached to my ankles, my palms had begun to sweat. Even though the cords had been tested to withstand more than 3,000 pounds, the thought of putting my life on that thin line was scary.

Bungee jumping got its start as a ritual practiced by "land divers" on Pentecost Island in the South Pacific. The sport became popular in the West in the late 1980s. Now, more than 75 companies in the U.S. arrange jumps off bridges, towers, cranes, and even hot-air balloons. A jump usually costs \$50 to \$120, depending on the height and location. But at Action Park in Vernon, N.J., you can leap off a 75-foot platform for just \$5.

OVER THE EDGE. Before my first jump—and after I signed a release absolving A. J. Hackett Bungy Ltd. from liability—I asked myself: Is the excitement worth the danger,

however small, of dying? For me, the answer was yes. But watching people hover on the edge of the platform as they struggle with that question makes bungee jumping a great spectator sport.

My jump that day was 143 feet off the Kawarau Historic Bridge near Queenstown.



First, I was weighed, to determine the proper bungee cord. Then, as I sat on the platform near the center of the bridge, my feet were tightly bound together with a towel and tethered to the cord by a nylon strap and carabiner, a common piece of mountaineering equipment.

On the platform, the operator placed my feet on two

painted footprints with the toes disappearing off the edge and told me to dive away from the bridge. Then, the countdown began: five... four... three... two... I dove straight out, in my best imitation of Superman. At first, the free-fall was exhilarating. But it was also disorienting, and after a moment I panicked. I wished there were something to grab hold of. The sound of the wind was almost deafening. The river and rocks below rushed toward me, until everything became a blur.

HIGH BOUNCE. Suddenly, the world seemed upside-down. The river was receding, and now I was completely confused. I was 100 feet up in the air again when I realized that the cord had held.

I started to descend once more. This time, there was no fear, just enjoyment. I rebounded up and down about four more times, with each rise becoming smaller. Finally, the bungee cord had no more bounce, and I was lowered into a raft, where my feet were untied.

Is bungee jumping safe? There have been accidents, but they have generally come from the mistakes of careless operators. Today, most use dual carabiners to attach your feet to the

cord, so you have a backup. That was the system used by Adrenalin Adventures East and P.T. Bungee Inc. (800 3-BUNGEE) for my New York jump. Many operators also attach a harness to your waist.

Over the Hudson, my palms are dry, and my heart beats calmly as I fly out toward the skyline. One thing about bungee jumping: It gets easier every time.

Jay Petrow

That's called progress. Another service many carders use is electronic message delivery. This lets you record a message for delivery at a specified number at a specified time. MCI, for example, charges \$1.60 per message. Many cards also offer conference calling, which links together several parties on the road. Sprint, which poses a maximum surcharge of \$2.25, is the only company that offers this call-card service without the intervention of an operator. More features are on the way. In addition to MCI's conference service, AT&T is working on a fax mailbox. Here's how it might work: Your boss sends a fax to a centralized computer, which converts it to data. Then, when you are at your hotel, you call an 800 number to see if anything has been left for you. If you find out something is waiting there, you punch in the number of the hotel's fax, and the computer will forward the message.

TE DIAL. Not to be outdone, Sprint is doing field tests with 50,000 customers of a computerized system that understands spoken commands. Customers dial a toll-free Sprint number and familiarize Sprint's computer with their voice patterns. Then, they can prompt the computer to associate certain voice commands with specific numbers. That way, customers can just "call home" or "call office," and Sprint's computer will dial those numbers.

The service has one big advantage. It makes it far more difficult for crooks to use a card, since it will work only with your voice. But the system may not understand your voice if there's a lot of background noise where you're calling from, as there might be in an airport.

As computers and communication technology become increasingly sophisticated, more inventive gimmicks will surface. Some will be more worthwhile than others. Since the cards are free, they can't go wrong trying them all out.

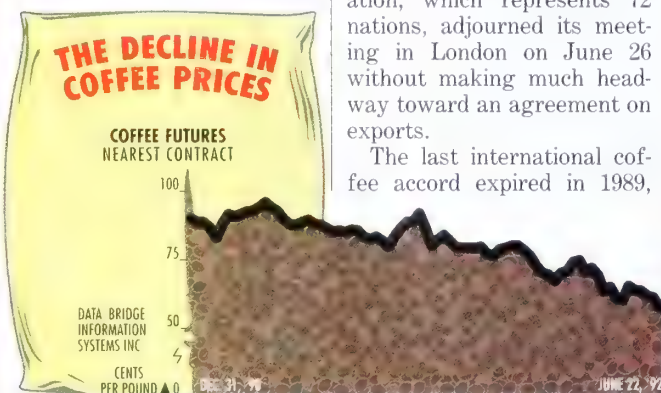
Mark Lewyn

Smart Money

WHEN YOU BET ON COFFEE, USE THE OLD BEAN

Coffee is hot, it's percolating—well, you get the idea. Coffee-futures prices—now hovering at a mere 56¢ a pound—are at a 20-year low, and small commodities players believe that the time has come to bet on the bean. Trading in coffee futures on New York's Coffee, Sugar & Cocoa Exchange has exploded to record levels, as investors wager that prices have finally bottomed out.

But if you're thinking of joining the speculative frenzy, grab a doughnut, a cup of coffee—and think about something else. Wall Street coffee mavens agree that buying into futures right now, in the belief that a trough has been reached, is a sure way of getting scalded.



"Sure, the market looks cheap. It also looked cheap at 75¢," says Judith Gaines, a Merrill Lynch coffee-futures analyst.

MORE DREGS. There's a technical term for "cheap stuff tends to get cheaper": the Gann Theory. It holds that when contracts are at new lows, there is a greater probability of making money by selling than by buying. Indeed, investment pros have been making money in coffee for most of the past three years because prices have steadily declined.

Technical factors such as

the Gann Theory tend to carry the day in the commodities markets. But there are also plenty of fundamental reasons to steer clear of coffee. Analysts note that coffee-company inventories are filled to the brim, so roasters are not inclined to buy up more coffee for their stocks (particularly when the prices keep going down). Coffee exports have also been bountiful: currently about 72 million bags a year, each bag weighing 132 pounds. Coffee-growers want to see exports cut to 62 million bags, but efforts by the coffee-producing and coffee-consuming nations to reach an accord that would lower production are getting nowhere. The International Coffee Organization, which represents 72 nations, adjourned its meeting in London on June 26 without making much headway toward an agreement on exports.

The last international coffee accord expired in 1989,

and the latest talks didn't exactly overflow with success. The only agreement was to meet again on July 29. Even if a coffee pact is hammered out, it would have to be ratified by both the producers and consumers.

And Congress is unlikely to okay coffee quotas the producers want but American roasters oppose. Notes Gaines: "There's more chance of a frost in Brazil than there is for an agreement." So if you want to speculate in coffee, go ahead—but pray for bad weather.

Gary Weiss



Health

STINGLESS SCREENS AND SUNLESS TANS

Tired of sunscreen-laden sweat dripping into your eyes as you serve a tennis ball? Or perhaps you'd like a deep, dark tan without frying. The sunscreen industry, in a quest to refine its formulas, has some new products that can help.

To take the sting out of your sweat, try one of several "sport" sunscreens. These form a porous film that binds with the skin, so you sweat through them. The new formulas are sold under such names as Coppertone Sport (about \$4 to \$6 for 4 ounces) and Bain de Soleil Sport Lotion (\$8.30 for 3½ ounces).

Even more popular are lotions that bronze you without the sun. Smoother and more natural-looking versions of QT, an early, orangy slather-on tan from Coppertone, they include Estée Lauder's Self-Action Tanning Spray (\$19.50 for 4 ounces) and Hawaiian Tropic Self Tanning Milk (\$7.75 for 6 ounces).

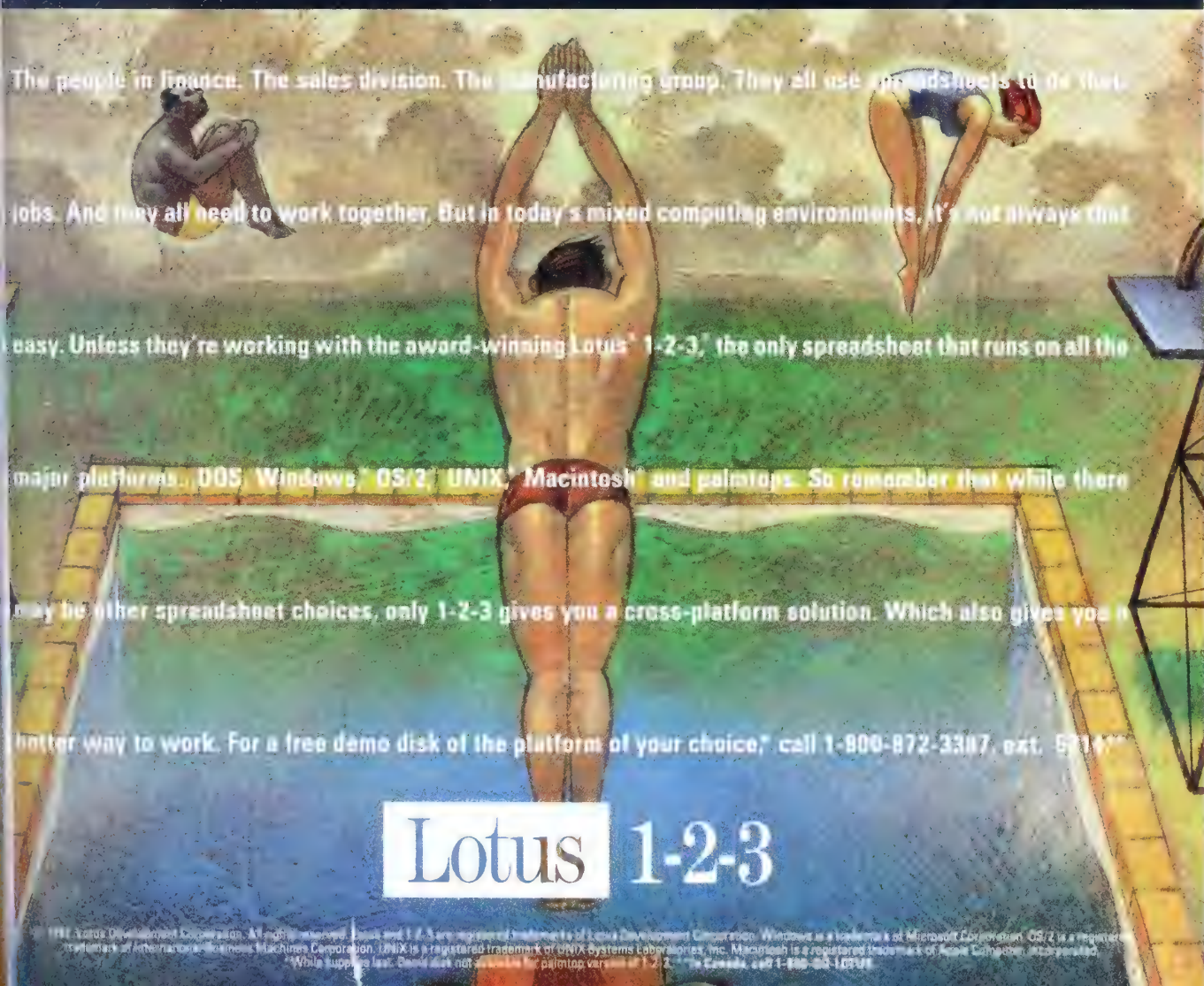
SCREEN TESTS. These contain dihydroxyacetone (DHA), which darkens the skin by interacting with its amino acids and proteins. Sunless tans won't wash away but will fade as the top layer of skin gets sloughed off. Beware:

Fake tans don't protect you from burning—you still need a sunscreen outdoors.

Of course, you can still buy regular sunscreens. Like the dripless sport versions, most absorb rays of ultraviolet (UV) light before they reach the skin. The sun bombards you with two kinds: UVA, which may cause some skin damage and the much more powerful UVB, which will actually burn. The ingredient para-aminobenzoic acid (PABA) is the most effective UVB block, but it doesn't absorb UVA rays and may irritate the skin. Cinnamates, benzophenones, and salicylates don't absorb as much UVB but do soak up some UV.

Doctors say to look for sun-protection factor (SPF) of at least 15 and a waterproof label. SPF 15 means you can stay in the sun 15 times as long as it would normally take you to burn. Screens above 15 block a greater percentage of burning rays, but the incremental differences are small. Waterproof screens should retain their SPF even after 80 minutes of swimming. Whatever brand you choose, sunscreens take time to work, so remember to apply them 15 to 30 minutes before you go out. Pam Blk

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Years ago, if you were stuck in mud, you called Triple A to pull you out. A pesky carburetor? Off to the local gas station, compliments of the American Automobile Assn. For a few dollars a year, this Red Cross of the highways jumped batteries, delivered gas, fixed flats, and posted bail for high-balling motorists hauled before the Judge Roy Beans of rural America.

AAA is still around, 33 million members strong. But these days, a lot of other auto clubs, for-profit ones, have popped up. Many are cheaper than the nonprofit AAA, and offer competitive if not superior services. These clubs, perhaps 30 in number and growing, appeal to those demanding the sort of luxury roadside service increasingly available to high-end new-car owners through their warranties. Such features as reimbursement for lodging, meals, and alternate transportation in the event of an accident while traveling away from home are now standard at many clubs.

BOND VOYAGE. All the clubs offer a variety of services—anything from trip planning to discounts on hotels, rental cars, and even movie tickets. But the two most important features you should look for are towing (which includes roadside services such as jump-starts and fixing flats) and trip interruption coverage. The latter is the newest wrinkle in auto clubs and reimburses members from \$300 to \$1,000 for trip expenses in the event of an accident at least 50 or 100 miles away from home. The Allstate Motor Club, for example, offers a \$59.95 membership that pays a driver and spouse up to \$1,000 in expenses for an accident 100 miles from home.

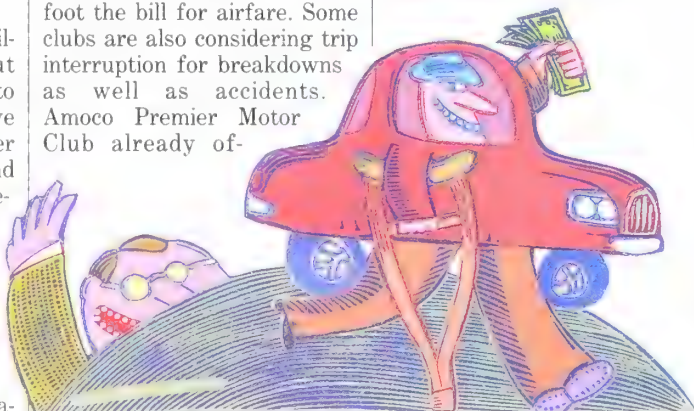
Some plans only allow reim-

Travel

ROADSIDE TROUBLE? WHO YA GONNA CALL?

bursement for car rental. So check whether the plan you choose covers the cost of completing the trip by air. U.S. Auto Club (USAC), for one, will foot the bill for airfare. Some clubs are also considering trip interruption for breakdowns as well as accidents. Amoco Premier Motor Club already of-

rage. You sign off, not having to reach into your pocket for \$20 or \$50. (The charge for a five-mile tow at night in 18 major cities averages \$45.)



A COMPARISON OF AUTO CLUBS

Club/Phone	Membership	Towing	Trip interruption benefit
AAA, AAA PLUS Check local listing	\$18-\$68 \$18-\$25 extra (Individual)	Varies by club 100 miles	Varies \$700
ALLSTATE 800 347-8880	\$39.95* \$59.95*	\$50 \$100	\$500 \$1,000
AMOCO, PREMIER 800 334-3300	\$49.95* \$74.95*	5 miles/\$50 50 miles/\$100	None \$500*
CROSS COUNTRY 800 833-5500	\$35* \$45* \$60*	\$35 \$50 \$100	\$500 \$500 \$500
MONTGOMERY WARD 800 621-5151	\$52*	10 miles/\$80	\$1,000
USAC 800 348-5058	\$74.95 (Family)	\$100	\$1,000

*Covers husband and wife

DATA: BW

fers both types of coverage.

In towing, the best plans involve no fuss and no cash. The tow truck takes your car where you want to go, be it a dealership or your driveway, rather than to a particular ga-

USAC is on the generous side, allowing up to \$100 per tow, or about 25 miles. The member either can use one of the trucks in USAC's 14,000-tower network or choose an independent and get reim-

bursed, an important option. USAC costs \$74.95 a year and covers an entire family. Cross Country Motor Club allows \$35 per tow on its \$35 membership plan for a husband and wife. The driver pays the coverage. A \$45 plan allows \$50; a \$60 option, \$100.

AAA clubs have varying local rates and rules, but they tend to be less generous and to favor their 14,000 towing contractors. It will usually cost extra to have your car towed where you choose, and you may not get reimbursed if, stranded, you use an unfiliated tower.

PRICY MILES. In Chicago, a club member gets the first 100 miles free, then pays \$2.50 a mile. In Northern New Jersey, a tow to the operator's garage is free, but to go elsewhere it's \$5 for the first mile and \$1.50 for each additional one. In Atlanta, a tow to the station is free up to 10 miles, then costs \$2 a mile.

AAA isn't cheap. That Chicago membership costs \$52, and there's a \$12 charge for a spouse and another \$22 for a driving-aged child. The family package sells for \$94. AAA also has its Plus program, which features a higher level of benefits but costs more. While Plus offers a flat fee for 100 miles of towing, it pushes the single Chicago membership up to \$76, with the family paying \$126. In Atlanta, Plus will cost a couple \$108 the first year and \$93 in subsequent years. This may seem steep, considering that many auto insurance plans offer roadside service options for a few dollars a year.

As competition continues to heat up among the clubs, benefit levels are expected to increase further. As Chae Kuebler, president of USAC's Motoring Division Inc., says, "People don't like the nickel-and-diming." E.S.

Worth Noting

■ **FINANCE ON THE FLY.** Passengers on 11 U.S. carriers and Air Canada can now use GTE's on-board Airfones to listen to a 60-second roundup of

stock market activity. Reports are updated every 30 minutes. At \$3 per call, you can also dial up news, sports, and weather.

■ **TAX FLIP-FLAP.** Sole proprietors can now deduct tax-preparation costs in full on

Schedule C, says the IRS. Formerly, costs were lumped with miscellaneous deductions, where only the amount above 2% of adjusted gross income could be deducted.

■ **BACK AID.** With a padded support for your spine and

cloth loops that fit over your knees, a beltlike device called Back-Up reduces muscle strain when you sit for long periods. The results: improved posture, fewer backaches. About \$40, it's from Nix Chair, 800 722-2587.

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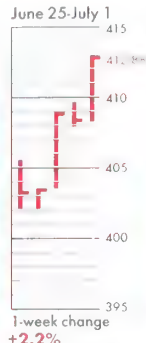
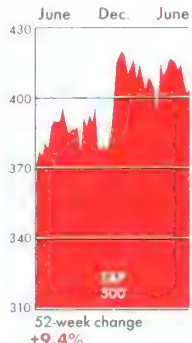
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Investment Figures of the Week

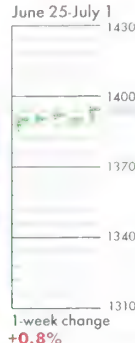
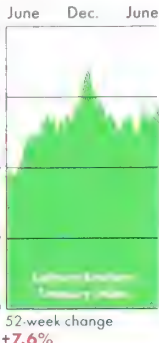
MARKET COMMENTARY

Stock and bond markets had a modest recovery, as investors wagered on ever-lower interest rates. The Dow Jones industrial average climbed 37.5 points on June 29, rising above the 4,000 mark for the first time since May 16. The surge came after the Commerce Department reported new-home sales had fallen in May. Bond prices rose on news, and the dollar weakened. The markets rallied again on Wednesday, as traders speculated that the Federal Reserve would move interest rates.

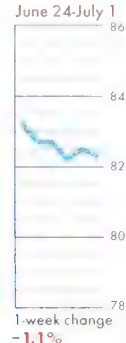
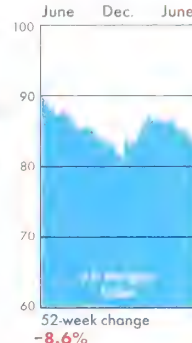
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	Week	% change 52-week
DOW JONES INDUSTRIALS	3354.1	1.9	12.8
COMPANIES (Russell 1000)	218.1	2.4	10.8
COMPANIES (Russell 2000)	189.6	1.7	12.7
COMPANIES (Russell 3000)	231.8	2.4	10.9

FOREIGN STOCKS	Latest	Week	% change 52-week
DOW JONES (FINANCIAL TIMES 100)	1756.3	-30.7	-28.6
DOW JONES (NIKKEI INDEX)	16,325.1	3.0	-32.0
DOW JONES (TSE COMPOSITE)	3387.7	1.4	-3.0

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.63%	3.72%	5.7%
30-YEAR TREASURY BOND YIELD	7.75%	7.82%	8.4%
S&P 500 DIVIDEND YIELD	3.02%	3.05%	3.4%
S&P 500 PRICE/EARNINGS RATIO	25.5	24.7	18.0

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	411.1	411.3	Negative
Stocks above 26-week moving average	39.3%	36.8%	Neutral
Speculative sentiment: Put/call ratio	0.43	0.52	Positive
Insider sentiment: Vickers sell/buy ratio	2.13	2.13	Neutral

INDUSTRY GROUPS

WEEK LEADERS

	4-week	52-week
INSURANCE	9.5	34.2
EL	7.0	24.2
PROPERTY-CASUALTY INSURERS	5.9	5.6
TALS	5.4	8.8
SPECIALTY APPAREL RETAILERS	4.5	-5.2

WEEK LAGGARDS

	4-week	52-week
CKING	-13.3	8.2
FINISHINGS AND APPLIANCES	-12.5	10.3
POLLUTION CONTROL	-9.6	-8.5
TRUMENTATION	-9.5	29.4
AND GAS DRILLING	-9.3	-14.5

Strongest stock in group

	4-week	52-week	Price
TORCHMARK	17.5	40.7	67 7/8
ARMCO	16.7	36.6	7
USF&G	18.8	58.3	14 1/4
CYPRUS MINERALS	16.3	30.3	28 1/2
LIMITED	7.7	-19.5	22 3/4

Weakest stock in group

	4-week	52-week	Price
CONSOLIDATED FREIGHTWAYS	-16.9	-19.5	12 7/8
FEDDERS	-32.8	-48.0	4 7/8
WASTE MANAGEMENT	-11.5	-7.9	33 5/8
TEKTRONIX	-13.0	-33.0	17 1/2
ROWAN	-17.2	-28.4	6

MUTUAL FUNDS

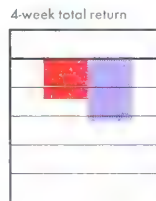
LEADERS

4-week total return	%
INGTON STRATEGIC SILVER	6.6
SHORE PRECIOUS METALS INDEX PLUS	6.2
FIDELITY SELECT AMERICAN GOLD	5.8
52-week total return	%
FIDELITY SELECT REGIONAL BANKS	56.9
FIDELITY SELECT SAVINGS & LOAN	54.6
EDOM REGIONAL BANK B	47.9

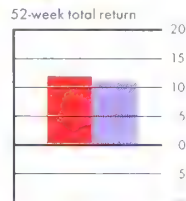
LAGGARDS

4-week total return	%
G. T. LATIN AMERICA GROWTH	-13.9
FIDELITY SELECT COMPUTERS	-13.0
STEADMAN OCEANOGRAPHIC TECHNOLOGY	12.9
52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	-49.3
UNITED SERVICES GOLD SHARES	-36.2
G. T. JAPAN GROWTH	-28.5

S&P 500



AVERAGE FUND



RELATIVE PORTFOLIOS

Amounts sent the present of \$10,000 held one year ago. The portfolio's changes indicate the total returns.

Treasury bonds
\$11,776
+0.74%

U. S. stocks
\$11,136
+1.01%

Foreign stocks
\$10,923
+1.31%

Money market fund
\$10,393
+0.06%

Gold
\$9,307
-0.15%

on this page are as of market close Wednesday, July 1, 1992 unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close.

June 30. Mutual fund returns are as of June 26. Relative portfolios are valued as of June 30. A more detailed explanation of this page is available on request.

IMMIGRANTS HAVE WORLDS TO OFFER

Immigration fatigue is weighing upon many Americans, following the arrival of a near-record 10 million immigrants since 1980. Fly from Portland, Ore., to Los Angeles, where 44% of the adults are foreign-born, or drive from Coral Springs, Fla., to Miami, where 70% of adults are born abroad, and the sense of entering a different country is very real.

Too real for 68% of this nation's population, who now think immigration is "bad" for the country, according to a BUSINESS WEEK/Harris poll (page 119). Are they right? From the standpoint of the overall economy, the answer is a resounding "no." Immigration has proved to be a powerful, pervasive economic stimulant. Yet it would be unwise to simply deny the pain of immigration that our society is experiencing. It would be even more unwise to leave it to know-nothing bigots to give voice to what two-thirds of the people are feeling.

The heated public debates over multiculturalism and bilingual education in public schools reflect a deep social anxiety. The fear is that recent immigrants by virtue of their sheer numbers and, in some cases, through their own choice are resisting the assimilation of core, shared American values, especially the desire to speak English. People also are concerned that in an era of high social need and low financial resources, the extra burden placed on social services, especially the schools, by the large number of immigrants who speak limited English may be too great.

FAST ASSIMILATION. To judge by the newcomers' remarkably successful record in the globally competitive top half of the U.S. economy—such industries as high technology, industrial design, biotechnology, and advertising—there isn't much of a problem. The new immigrants' attitudes toward education and work represent values that are as American as you can get. A quarter of all immigrants have college degrees, slightly higher than the average for native-born Americans. Engineers, scientists, and entrepreneurs from overseas have been critical to the great success of hundreds of computer, biotech, and software companies. To take just one example, Andrew S. Grove, founder of Intel Corp., is from Hungary, and his company is staffed with people born in India, Taiwan, and elsewhere. With their bilingual skills, family ties, and knowledge of how things get done overseas, immigrants are making important contributions in exporting Made-in-the-USA goods and services, especially to the fast-growing Latin American and Asian markets. Immigrants also are bringing new energy to our aging cities by setting up businesses and buying real estate. Without them, the nation's 10 largest cities would have shrunk by 6.8% in the past decade, instead of growing by 4.7%. Immigrants pay an estimated \$90 billion in taxes, compared with the \$5 billion in welfare benefits they receive. So if building new companies and generating jobs, profits, and taxes to pay for social services are American, these immigrants are probably assimilating as fast, or perhaps even faster, than our grandparents did.

The picture is less clear at the bottom half of the economy, which is under severe pressure as the competitive forces of globalization sweep across America, drying up unskilled jobs and putting downward pressure on wages. While about one-quarter of the past decade's new immigrant workers had college degrees, about one-third actually dropped out before graduating from high school. Many only finished the fifth or sixth grade. These immigrants tend to be non-English-speaking, sometimes barely literate in their own native languages, less able and less willing to adapt to American culture, and more of a burden on social services. Of course it is true that an advanced degree is not a prerequisite for becoming an entrepreneur. Many of these immigrants have proved extremely adept at using their extended families to pool resources and start their own small businesses on city streets. Yet many others are joining tens of millions of poorly educated and low-skilled Americans at the bottom of the ladder, competing for a shrinking number of poorly paid jobs. Some 73% of African-Americans believe that immigrants are taking jobs away from them, according to the BW/Harris poll.

NEPOTISM? So, does America have an immigration "problem"? By and large, no. This nation of immigrants is benefiting nicely from its infusion of new peoples. But there are changes in public policy that can improve the situation. Right now, 62% of all legal immigrants, including political refugees, are granted visas solely on the basis of their family ties to people already living in the U.S., while only 17% are admitted on the basis of job-related skills. While that appears to be fair to those with family already in the U.S., the policy resembles nepotism to the millions of other would-be immigrants around the world who are now locked out of America. The law already restricts the definition of "family" to immediate relatives. Cutting back the quota based solely on family would open up immigration slots for others, boosting the number of people allowed to immigrate on the basis of skills. That would make the immigration standards more merit-based.

By doubling the percentage of skills-based immigrants to the U.S. would also permit a greater number of Eastern Europeans into the country. That would help many people caught up in the turmoil of the end of communism, just as the 1965 immigration law helped millions of Asians and Latin Americans caught up in the conflicts of their own countries during the '70s and '80s. Finally, the school systems of gateway cities that bear the brunt of immigration should receive special federal assistance for bilingual programs that help children make the transition to classes conducted in English. There can be no denying the pain of immigration, both for the immigrants who must discard some of their cherished traditions in their new world and for mainstream Americans who must adjust just to the newcomers. But for an immigrant society such as ours, the pain is more than worth it. Immigration is reviving America.



Al Gerstenberger, Ford Designer

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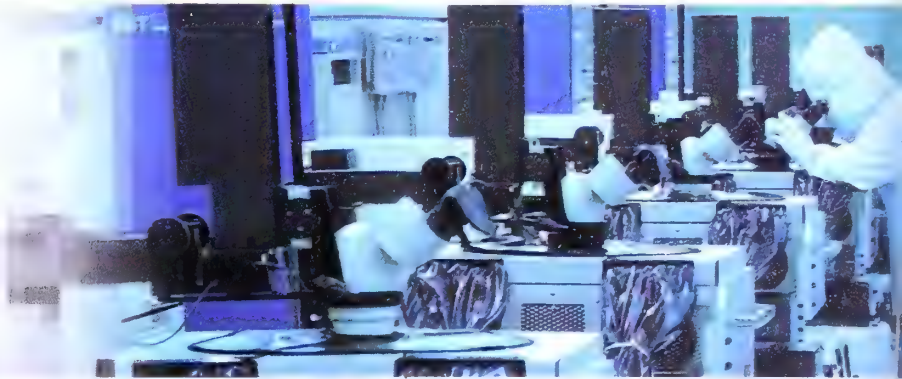


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► HOW HE SEES THE WORLD

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BusinessWeek

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The Recovery WHY SO SLOW?

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**LOST JOBS
JUST AREN'T
COMING
BACK**

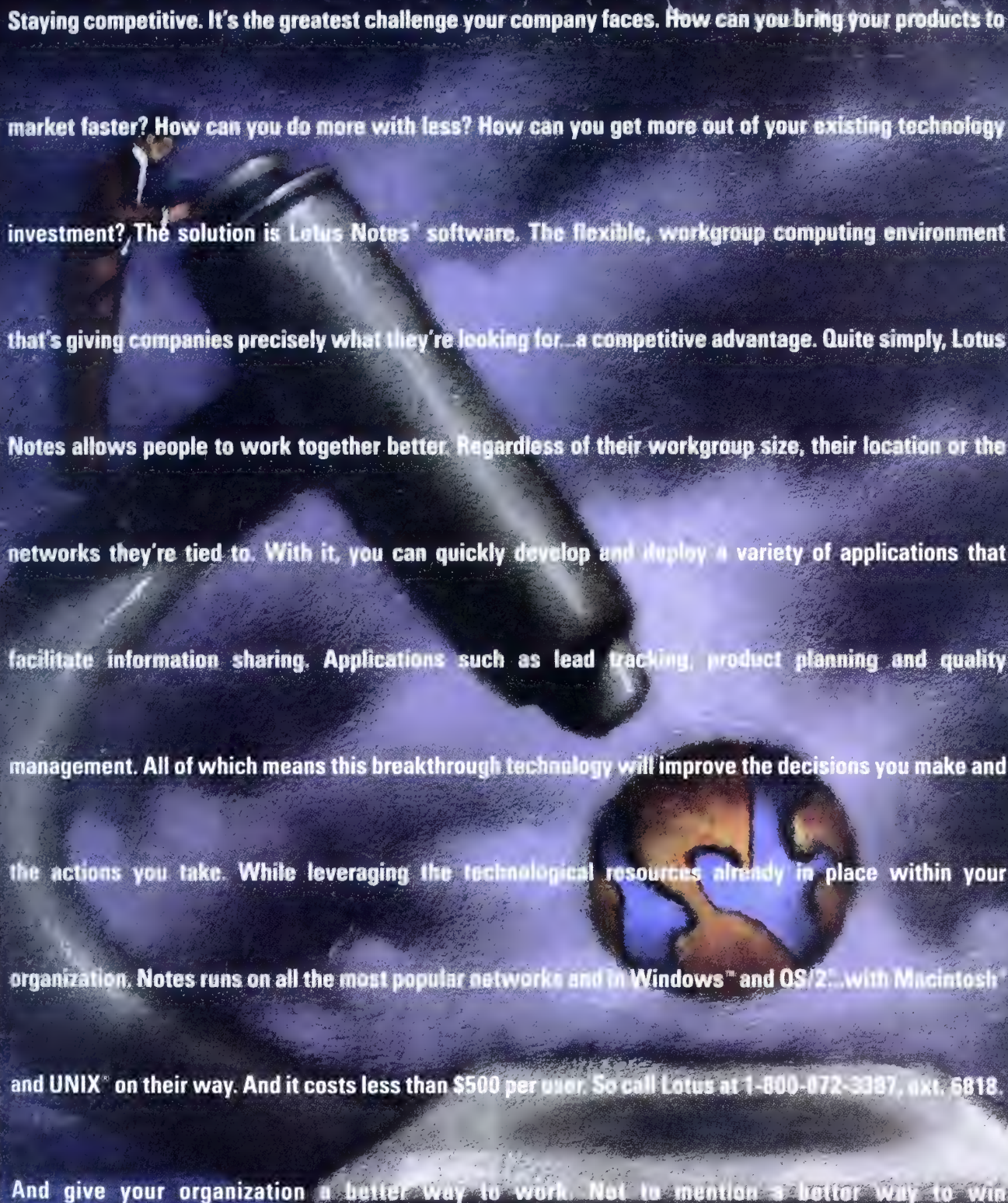
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BALANCE SHEETS
ARE WORSE THAN
THEY LOOK**

**THE REAL
ESTATE
SLUMP IS
DEEPENING**

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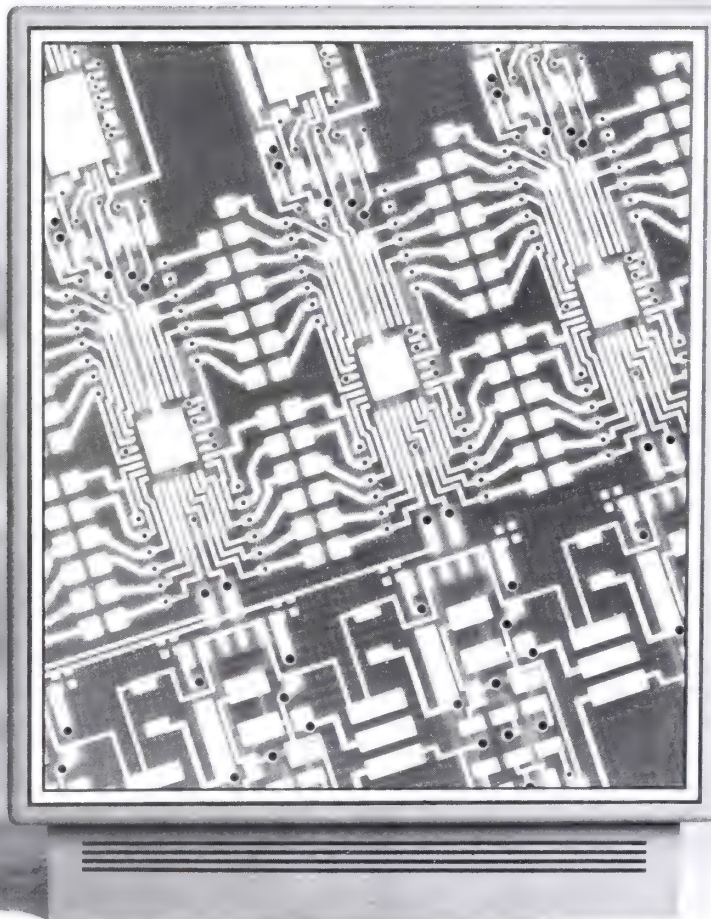
IT'S A
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WORLD.
POSITION
YOURSELF
ACCORDINGLY.

A hand holding a pen, pointing towards a small globe of the Earth. The background is dark and textured, suggesting a night sky or a deep space environment. The pen is dark and has a silver clip. The globe is small and shows the continents in brown and the oceans in blue.

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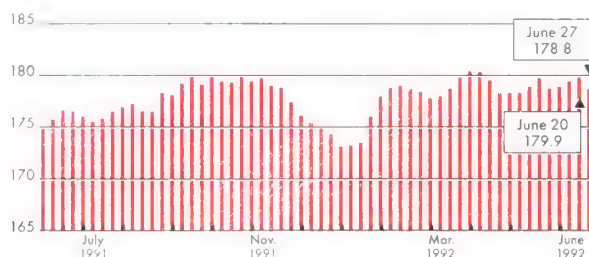
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The Souter surprise: He's judicial
Business should invest in literacy

BusinessWeek Index

PRODUCTION

Change from last week: -0.6%
Change from last year: 1.2%

1967=100 (four-week moving average)

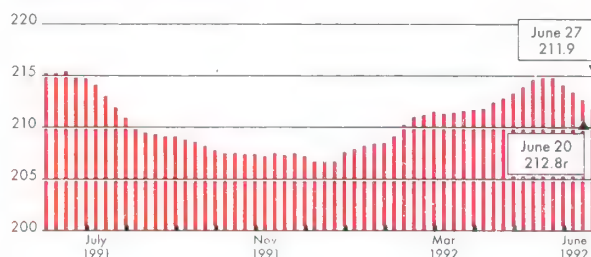


The production index dropped sharply in the week ended June 27, mainly reflecting a plunge in rail-car loadings during the rail strike. Coal production also posted a steep decline. Both auto and truck output fell, as did electric-power production. Output of steel and lumber rose slightly, as did crude-oil refining. Production of paper and paperboard were unchanged. Before calculation of the four-week average, the index plummeted to 170.9 from 182.4 in the previous week.

BW production index copyright 1992 by McGraw Hill Inc.

LEADING

Change from last week: -0.4%
Change from last year: -1.4%



The leading index posted its fifth consecutive decline in the week ended June 27. Among the downside indicators, stock prices continued to slide, and failures of large businesses rose. Also, the pace of sensitive materials prices slowed, the shrinkage in real estate loans picked up speed, and the broad M2 money supply fell at a faster rate. On the plus side, bond yields edged lower. Before calculation of the four-week average, the index dropped to 209.8 from 211.7 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (7/4) thous. of net tons	1,717	1,814#	8.9
AUTOS (7/4) units	55,916	123,406r#	8.2
TRUCKS (7/4) units	36,204	76,211r#	9.4
ELECTRIC POWER (7/4) millions of kilowatt-hours	60,747	59,797#	-4.0
CRUDE-OIL REFINING (7/4) thous. of bbl./day	13,994	14,241#	2.6
COAL (6/27) thous. of net tons	13,461#	19,171	-20.8
PAPERBOARD (6/27) thous. of tons	822.1#	811.1r	5.7
PAPER (6/27) thous. of tons	760.0#	758.0r	1.9
LUMBER (6/27) millions of ft.	484.9#	468.5	-5.5
RAIL FREIGHT (6/27) billions of ton-miles	15.8#	21.4	-15.1

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWSA¹, SFPA², Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (7/8)	125	125	139
GERMAN MARK (7/8)	1.49	1.51	1.83
BRITISH POUND (7/8)	1.93	1.91	1.61
FRENCH FRANC (7/8)	5.02	5.10	6.19
CANADIAN DOLLAR (7/8)	1.19	1.20	1.15
SWISS FRANC (7/8)	1.34	1.36	1.58
MEXICAN PESO (7/8)	3,098	3,107	3,022

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (7/8) \$/troy oz	347.500	343.550	-6.3
STEEL SCRAP (7/7) #1 heavy, \$/ton	88.50	90.00	-0.6
FOODSTUFFS (7/6) index, 1967=100	202.8	204.6	4.1
COPPER (7/4) c/lb.	116.0	110.6	9.1
ALUMINUM (7/4) c/lb.	57.5	57.5	-5.0
WHEAT (7/4) #2 hard, \$/bu.	3.67	3.79	27.4
COTTON (7/4) strict low middling 1-1/16 in., c/lb.	61.40	59.77	-17.0

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market.

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (7/3) S&P 500	411.58	403.57	10.7
CORPORATE BOND YIELD, Aaa (7/3)	8.16%	8.20%	-9.7
INDUSTRIAL MATERIALS PRICES (7/3)	98.9	98.8	0.2
BUSINESS FAILURES (6/26)	391	386	-2.0
REAL ESTATE LOANS (6/24) billions	\$396.6	\$398.9	-4.2
MONEY SUPPLY, M2 (6/22) billions	\$3,403.7	\$3,409.0r	0.2
INITIAL CLAIMS, UNEMPLOYMENT (6/20) thous.	420	421	-0.2

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjust data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (June)	178.8	178.8r	1.1
BUSINESS WEEK LEADING INDEX (June)	211.9	214.9r	-1.1
EMPLOYMENT, CIVILIAN (June) millions	117.6	117.7	0.1
UNEMPLOYMENT RATE, CIVILIAN (June)	7.8%	7.5%	13.2

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (6/22)	\$948.9	\$953.1	10.1
BANKS' BUSINESS LOANS (6/24)	280.2	281.6r	-10.1
FREE RESERVES (6/24)	1,077r	320r	10.1
NONFINANCIAL COMMERCIAL PAPER (6/24)	145.4	148.5	-2.1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions).

MONEY MARKET RATES

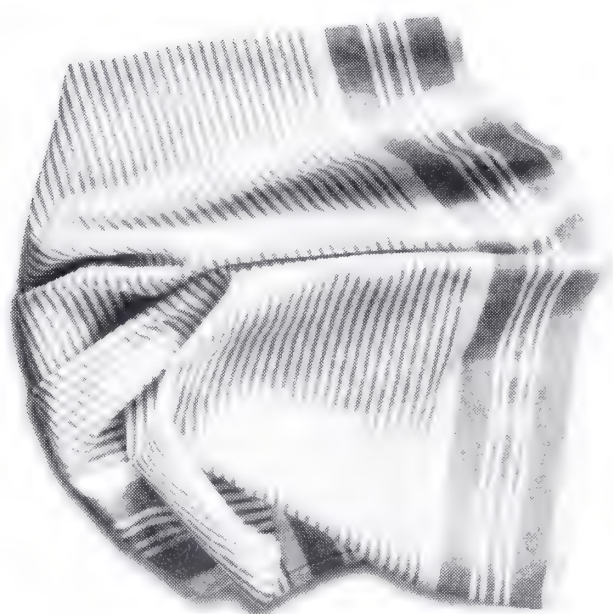
	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (7/7)	3.35%	4.53%	5.79
PRIME (7/8)	6.00	6.50	8.50
COMMERCIAL PAPER 3-MONTH (7/7)	3.47	3.89	6.13
CERTIFICATES OF DEPOSIT 3-MONTH (7/8)	3.35	3.82	6.04
EURODOLLAR 3-MONTH (7/4)	3.80	3.85	6.06

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value. NA=Not available. r=revised. NM=Not meaningful.



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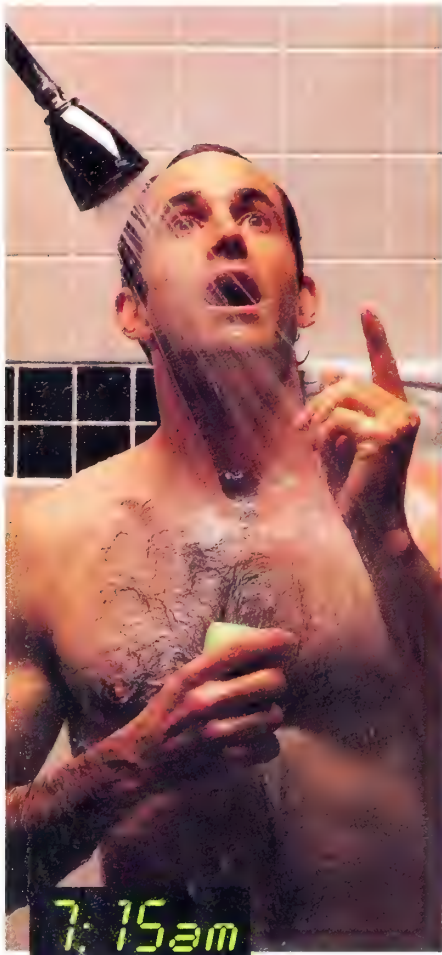
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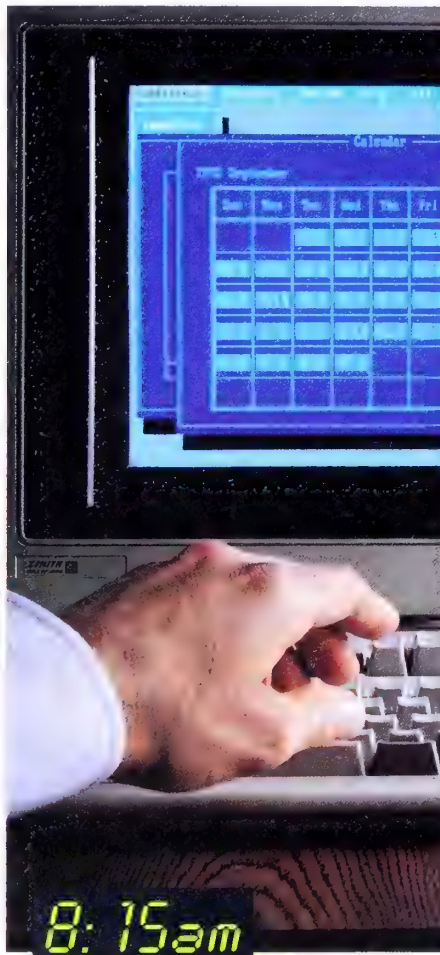


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GM AND SUPPLIERS DON'T HAVE A 50-50 RELATIONSHIP

Your article "GM tightens the screws" (Top of the News, June 22) provides no indication that General Motors will pursue genuine collaborative relationships with its suppliers. Instead, it seems that the organization will persist in using the vast imbalance of economic power between itself and its suppliers to dictate unilateral terms for each supply agreement. Any suggestion of partnering with suppliers belies GM's truly opportunistic behavior.

In addition, a close look at the terminology used by the authors of this article may help illustrate why collaborative supplier relationships are often unsuccessful. The terms "vendor" and "supplier" are used interchangeably. In actuality, the context of each term is quite different. Whereas vendors sell or hawk their products, suppliers provide, furnish, or satisfy a need.

Both those who depend upon suppliers and those who write about them should view these businesses as integral extensions of manufacturing operations, not as readily interchangeable entities such as hot dog vendors. Until that happens, GM, its suppliers, and its customers will continue to bear the burden of unnecessary costs.

John M. McKeller
 Assistant Professor of Management
 University of Wisconsin-Madison
 Madison, Wis.

THE REAL DEBT PICTURE AT RITZ-CARLTON

The article on the Ritz-Carlton Hotel Co. ("Too many rooms at the inn for Ritz-Carlton," The Corporation, July 6) inaccurately and, in my opinion, irresponsibly, intimates the imminent demise of our company because of its current debt position. Nothing could be further from the truth.

Without listing every point in error, let me respond to the most serious:

1. The statement that Ritz-Carlton Hotel Co. has "more than \$1 billion in debt" is absurd. The company, in fact, has minimal debt for a company its size and has

not incurred any Ritz-Carlton Hotel project debt.

2. Ritz-Carlton Hotel Co. has no direct ownership of the hotels it manages. Affiliates of the company have ownership interests in 13 of the 25 managed hotels.

3. The Ritz-Carlton, Buckhead, Ga., based on your reporter's premise of 100% occupancy and \$134 average daily rate, would generate profit significantly in excess of the hotel's debt service. This hotel continues to be one of the most successful in the U.S. hotel industry.

4. My comment regarding nonrecourse loans was taken out of context. Your reporter suggested that Ritz-Carlton had exposure for hotel project debt, and I was explaining the nature of nonrecourse project financing. I never suggested that Ritz-Carlton would walk away from these loans.

5. The purchase price paid for the Ritz-Carlton name is grossly inaccurate.

Horst H. Schulze
 President and COO
 Ritz-Carlton Hotel Co.
 Atlanta

Editor's note: We erred in attributing the \$1 billion in debt directly to Ritz-Carlton Co. That number refers to the 13 affiliated partnerships that own 13 Ritz-Carlton properties. Major equity stakes in these partnerships are held by Ritz-Carlton Co.'s parent, W.B. Johnson Properties Inc. In the case of default on the loans by any of those partnerships, Ritz-Carlton Co. would not be liable, and it would continue to manage the properties, according to the company.

MATCHING UP THE MILLIONS AT GE

We're pleased that you chose one of General Electric Co.'s outstanding officers, Hellene S. Runtagh, for your listing of 50 top women in business ("Corporate Women," Cover Story, June 8). She is one of five women with responsibility for multimillion-dollar businesses at GE. Unfortunately, you mixed up the \$600 million in revenues of the organization Runtagh currently leads with the name and business description of a unit she headed in 1989. For the record, Run-

BUSINESS WEEK
 JULY 20, 1992 ***3275
 ISSN 0007-7135



Published weekly, except for one issue in January, by McGraw-Hill Inc. Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020.
 Telephone: (212) 512-2000 Domestic Telex: 127960 International Tel. ex: 23265; Cable: McGraw-Hill New York; TWX: 710-581-4879.
 U.S. subscription rate \$44.95 per year; 2 years, \$74.95; 3 years, \$99.95. Single copies, \$2.75. Write for rates in other countries.
 Business Week Subscriber Services: 1-800-635-1200

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European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone: 06281 23431. Telex: 848640

Postmaster: Please send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Registration Number 9010. Registered for GST as McGraw-Hill, Inc. GST #R123075673. Copyright © 1992 by McGraw-Hill Inc. All rights reserved. Title registered in U.S. Patent Office.

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Readers Report

tagh is president of GE Information Services, a global information services business that celebrated its 25th anniversary in 1991 with double-digit growth in earnings and revenues.

Bruce A. Bunch
Manager
Corporate Media Relations
General Electric Co.
Fairfield, Conn.

A WARNING FOR BUYERS OF ADRs

In "Where the boom in drug stocks still yields bargains" (Personal Business, June 15), you reported that investors need not worry about currency fluctuations when buying listed American Depository Receipts (ADRs). Quite the contrary.

Like any investment, there are certain risks, and in this case it would be correct to say that ADR prices are affected by the underlying foreign currency, even though the actual ADR securities trade in dollar terms. There still has to be a conversion in value from the local currency.

My firm has holdings in Sandoz ADRs, and in the table "Promise in the Pipelines" you list Sandoz' Sandimmune as a

major new drug. Sandimmune, which has a leading position in the field of immunology, was introduced in 1982. Your reference to 1996 sales of \$1 billion from the drug is not a major source of growth for Sandoz, which sold nearly \$600 million of Sandimmune worldwide last year. The growth will be derived from new step-out applications of a compound that is 10 years old.

I agree with the thrust of the article—that the foreign drug stocks are much more attractive values than the shares of their American counterparts.

Paul Gambal
Investment Officer
Kahn Brothers & Co.
Washington, D. C.

CHAIRMAN HAAN 'NEVER MADE A PROFIT' AT ITI

As a reader of BUSINESS WEEK for over 25 years, I found it interesting to have been featured in one of your stories, "Taking advantage of the tangles in telecom" (Information Processing, May 4). Once I finished reading the article on my entrepreneurial "endeavors," I found it to be an inaccurate and misleading report of the facts.

It is unmistakably clear that I have never made a profit from the operator services industry and at each turn have had to invest millions of dollars of new equity in an effort to keep the companies going. At this time, I have invested \$30 million more than I received back from NTS, Telesphere, and International Telecharge.

Presently, I am working 12 hours a day, seven days a week trying to save ITI and the jobs of its 1,000 loyal employees. BUSINESS WEEK should be a magazine that encourages the efforts of entrepreneurs and recognizes the tremendous financial risks that are often taken to keep struggling companies alive.

The willingness to take risks, the vision, and the drive of entrepreneurs is what makes America what it is today.

Ronald J. Haan
Chairman
International Telecharge Inc.
Bethesda, Md.

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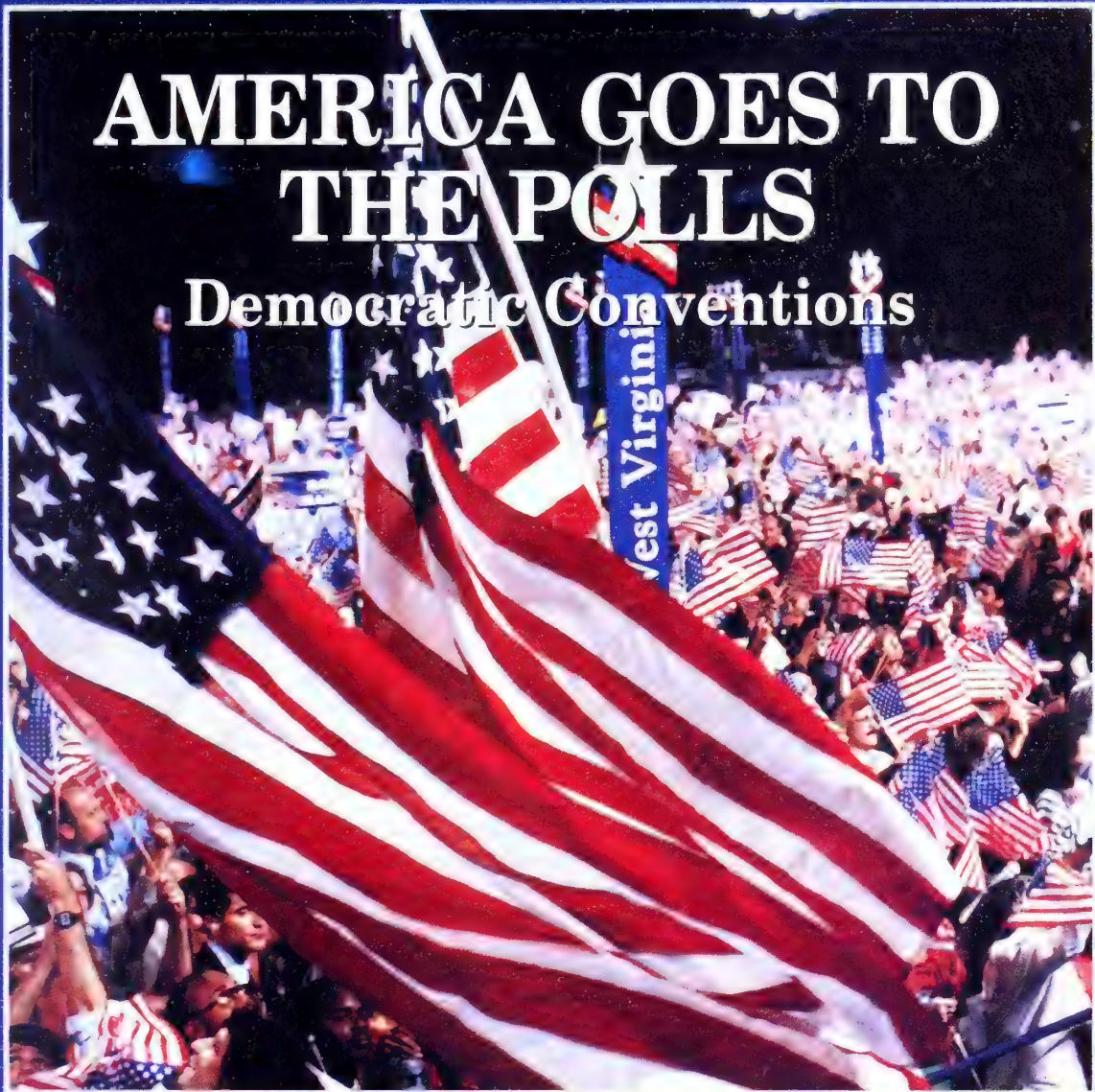
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AMERICA GOES TO THE POLLS

Democratic Conventions



Bill Pierce/Time Magazine

This brief history of the Democratic Convention is the second of four such essays that ITT is presenting in the course of the election year. Whatever our political beliefs or party affiliations, we all have a stake in the outcome of our electoral process. One way to encourage broad participation in the political process, we believe, is to help Americans understand how the system works and where it came from. Its importance cannot be over emphasized; our present and future depend on it.

Rand Araskog

Rand V. Araskog,
Chairman, President, and CEO, ITT

The Democratic Party can, and often does, trace its origins to the first years of the republic. But the modern Democratic Party is largely a product of the tumultuous politics of the 1820s and 1830s, when the idea of political parties finally gained legitimacy in America. Rallying behind Andrew Jackson, these early Democrats denounced what they claimed was the excessive power of large financial institutions, eastern elites, and the government itself. They were, they claimed, the party of democracy, the party of the people.

The suspicion of concentrated power that the Democrats were promoting lay behind the creation of one of the most singular American political

Second in
a series of
messages
from

ITT



institutions: the national party convention. The Democrats were not the first to hold a convention. That distinction fell to the Anti-Masons, a briefly powerful third party unsuccessfully attempting to become a permanent force in American politics. The Anti-Masons held a nominating convention in September, 1831 in Baltimore. The Democrats held their own first convention in May, 1832 (also in Baltimore) to nominate Andrew Jackson for a second term as President. And it was they who provided the most effective rationale for the new institution.

The party convention replaced what had, by the late 1820s, become a discredited system: the congressional caucus, in which members of Congress gathered in closed party meetings in Washington to choose their Presidential nominees. To much of the voting public and to the egalitarian-minded Democrats in particular, the caucus system, as it was then, seemed corrupt and undemocratic. In 1824, Andrew Jackson and his followers revolted against the caucus and effec-



Under a portrait of Woodrow Wilson, Franklin D. Roosevelt addresses the 1924 Democratic National Convention.

tively destroyed it; and for the next eight years, party leaders searched for something with which to replace it. A national convention, they concluded, would be more democratic than the 1820s type of caucus, more representative of popular sentiment than Congress or state legislatures.

It would be a great conclave of the people, in which

ordinary citizens, not officeholders or professional politicians, could shape the party's decisions. Indeed, the creation of the convention was part of a much larger process of extending democracy in America: a process that was intended to, at least gradually, expand the electorate assault privilege and make the political system more responsive to the people and less responsive to elites. The 1832 convention was in many ways a celebration of the idea of increased democracy with which Jackson had now identified the party.

But it was not long before the convention system began to take on many of the same unpopular characteristics of the caucus system it had replaced. However, the Democrats in 1832 adopted a rule

Candidates define themselves to the electorate through their convention acceptance speeches.

requiring candidates for President and Vice-President to win the votes of two-thirds of the delegates. As sectional politics increasingly pitted North against South in the years that followed, the two-thirds rule became, in effect, a Southern veto, through which delegates from slave states (a minority within the party) could block the nomination of any candidate whom they considered hostile to their interests. The two thirds rule remained a key element of regional power within the Democratic Party for many years, contributing on occasion to historic convention deadlocks. In 1924, for example, Democratic delegates cast 103 ballots at their conventio



Delegates and spectators demonstrate at the tumultuous 1896 Democratic National Convention in Chicago.



Delegates at the 1980 Democratic Convention in New York reflect the changes in party rules adopted in 1972.

New York before agreeing on a nominee, because regional divisions within the party prevented any of the major candidates from assembling a two-thirds majority. Partly as a result of the debacles of the 1920s, the party abolished the two-thirds rule in 1936.

But a greater obstacle than the two-thirds rule to making the convention genuinely democratic was the way in which delegates came to be selected in the 19th century. In one state after another, party bosses emerged who seized control of the selection of state delegations. For a long time, relatively few delegates were "ordinary citizens" beholden to party leaders; most were officials within or allies of local party organizations. On occasion, a convention could spin out of the control of party leaders in the face of strong popular sentiment; an example was the 1896 Democratic Convention, when the young Nebraska congressman William Jennings Bryan electrified the delegates with a speech attacking the gold standard and went on to win the party's nomination. But the sense that the convention had become a vehicle for "boss rule" survived. And as that

conviction gained strength in the late 19th and early 20th centuries, it helped produce widespread support for the primary system. It began to emerge in some states shortly after 1900 and gradually stripped the power of nominating candidates from party bosses and returned it to the electorate.

By the middle of the 20th century, party conventions had become less decision-making bodies than

The convention reflects the party's growing diversity of peoples and views.

image-making bodies, a change greatly accelerated by the rise of radio and television. One sign of the change came in 1932. Traditionally, Presidential nominees did not address the convention, but waited instead (often at home) for a delegation of party leaders to inform them officially of their nomination several weeks later. But Franklin Roosevelt, aware of how radio had made the convention a powerful

vehicle for shaping voter sentiment, shattered that tradition and flew to the Democratic Convention in Chicago from his home in New York to accept his party's nomination in person. All subsequent candidates in both major parties have done the same, and convention acceptance speeches have become one of the most crucial vehicles by which candidates define themselves for the electorate.

The convention has shaped the Democrats' image in

other ways as well, in recent decades, by reflecting the party's growing diversity of peoples and views. Battles over civil rights disrupted the party convention in 1948 and again in 1964. Conflict over the Vietnam War turned the Democratic Convention in Chicago in 1968 into a scene of almost unprecedented turbulence. Even the carefully scripted, television-oriented conventions of more recent years have failed to disguise the party's diversity and disagreement — particularly after the so-called McGovern reforms of 1972 ensured that delegates to the Democratic Convention would be more representative of the many groups within the party. Subsequent conventions have been notable for the number of women and minorities included among the delegates. The Democratic Convention may no longer play much of a role in choosing candidates or even in writing the party's platform, but it remains a powerful vehicle through which the party shapes its image before the world. ■

This text was written by Alan Brinkley, Professor of History, Columbia University

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WALTON, MADE IN AMERICA: MY STORY

Sam Walton with John Huey
 eday • 269pp • \$22.50

SAM GIVES SAM ONCE-OVER-LIGHTLY

my first and only encounter with Samuel Moore Walton, the legendary founder of Wal-Mart Stores Inc. did disappoint. In an annual meeting like that I had seen before or have seen before, the charismatic chairman led his employees, jammed into Barnhill Arena Fayetteville, Ark., in raucous "Wal-Mart cheers"—complete with a kind of arm-jiggling jig to depict the hyphen in the company name.

As he presided over the five-hour-plus affair last summer, Walton frequently loudly interrupted other speakers to make philosophical or to make some pointed observation. No dull and plodding agenda here. And he gave a "high five" for the USA and hearty applause for the company's rock-driver band, the center of the unpredictable. He held the audience in the palm of his hand.

Unfortunately, the one thing that can't be said for Walton's long-awaited biography, *Sam Walton: Made in America*, is that it was written before his death from cancer in April. Walton was finally persuaded to tell Wal-Mart's amazing story in his own

words, with help from *Fortune* Senior Editor John Huey. The result is part company history, part free-enterprise idealism, and part how-to book, sprinkled with often witty remembrances of Walton's kin, colleagues, and pals. Walton himself explains, he's not prone to introspection or dwelling in the past. Indeed, he is at his least convincing when he tries. And he is certainly not prone to vendettas, name-calling, and indiscretions, à la Lee Iacocca. All of which makes for pretty dry reading.

One learns plenty about how the ambidextrous kid from Oklahoma got his start in business as a Ben Franklin variety-store franchisee before launching his first Wal-Mart discount outlet in 1962. But Walton skates gingerly over the disappointments and controversy in his life. Even at the insistence of his wife, Helen, for instance, does he note that his parents "were two of the most quarrelsome

people who ever lived together" and eventually split up after the children were grown. How this affected him, Walton can't say for sure. But it did reinforce his own desire to have a peaceful family life, which, apparently, he did.

Business tensions make Walton equally uncomfortable. In an incident that's little known outside the company, Walton in 1974 gave up the chairman and CEO titles for 30 months in an attempt at semiretirement. A young finance man, Ron Mayer, took over—and the company was quickly divided into warring fac-

tions. When Walton took the top job back, Mayer and a large contingent of managers walked out. Walton sheds little light on the debacle, except to say that he was worried about Mayer's "people skills" and "unhappy too over some issues of what you'd call personal style."

For those unfamiliar with Wal-Mart's meteoric growth in the past decade, Walton lays out its strengths and strategies in his no-nonsense style. Its roots in backwater towns forced it to develop what are now the most efficient distribution and communication systems in the country. At the prompting of his wife, Walton initiated profit-sharing and stock-purchase plans for all of his employees, motivating better customer service. And he insisted that his managers never lose their focus on the merchandise. He gleefully recounts internal contests to promote particular items in the stores. One of Sam's all-time favorites:

a mattress pad that sold like hotcakes.

It's clear from this book that Walton loved retailing and all of its nitty-gritty details. But as a man who favored action over contemplation and teamwork over ego, he has left much of the color, characters, and charisma behind Wal-Mart for future authors to describe.

BY WENDY ZELLNER

Zellner manages BW's Dallas bureau.

BOOK BRIEFS

HARD DRIVE: BILL GATES AND THE MAKING OF THE MICROSOFT EMPIRE

By James Wallace & Jim Erickson
 Wiley • 426 pp • \$22.95

BILLIONS IN BYTES

When first we meet William H. Gates III, it is 1966 and he is traveling to the top of the Space Needle, 600 feet above Seattle, to be treated to dinner for having memorized three chapters of the *Book of Matthew*. He was the only one in his confirmation class to manage the recitation without stumbling over a single word. Even then, it seems, Gates didn't miss a beat.

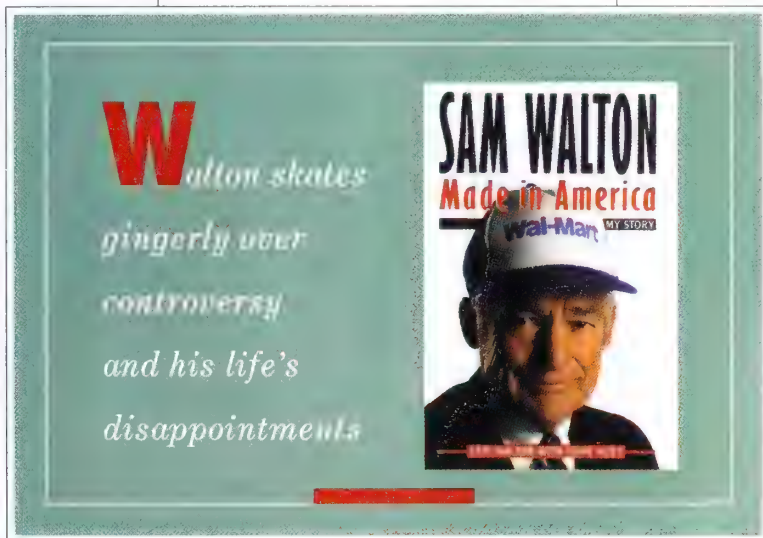
And so begins *Hard Drive*, the story of how Gates co-founded a personal-computer software company, Microsoft Corp., and became the country's wealthiest tycoon.

James Wallace and Jim Erickson, reporters for the *Seattle Post-Intelligencer*, jam-pack so many details into their book

that there's hardly room for adjectives. And any sense of drama is lost. Yet its blistering examples of Gates's competitive drive may surprise even those well-versed in computer-industry affairs. In the early 1980s, for instance, a Microsoft software application, Multiplan, was being trounced by Lotus 1-2-3. So, while creating a new version of its MS-DOS operating system, the basic software that all applications rely upon, Microsoft programmed in bugs that would make 1-2-3 crash. But insights into other facets of Gates's personality are thin—apart from a description that paints him as something of a ladies' man (albeit one prone to spending vacations reading physics books with his date).

This, too, is a fairly dry book, but one redeemed by a wealth of detail for anyone who wants to know how Gates became richer than even Ross Perot.

BY KATHY REBELLO



You came home,
kissed your wife,
patted the dog and
listened to your
four-year-old babble
about mutant turtles
for an hour. Now
you open up your
33MHz, 486DX
computer with
TFT color and
start working on
that sales report.
After all, it looks
like you might have
to send that kid to
private school.



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ON GLOBAL WARMING, LET THE COOLEST HEADS PREVAIL

BY GARY S. BECKER



New data will be collected during the next two decades that should resolve much of the uncertainty about fossil-fuel emissions. Meanwhile, one new study shows there's no great harm in waiting to act

International agreements are needed when one nation's industrial activity damages the environment in other countries. This is why President Bush has been severely criticized for being the only leader at the Rio summit to oppose a stringent accord on controlling global warming caused by the greenhouse effect. But the U.S. has taken the correct stand: The jury is still out on the effects on atmospheric temperature of carbon dioxide (CO₂), chlorofluorocarbons, and emissions of other gases, mainly from the burning of fossil fuels.

These gases are trapped in the atmosphere and reflect back heat that warms up the earth's land surface and oceans. Since it isn't possible to use ordinary scientific procedures to determine whether this has a major impact on the earth's temperature, claims about global warming caused by such a greenhouse effect are based on theoretical models of the atmosphere. The models are complex, but even scientists who are strong advocates of greenhouse theories admit that the analyses are oversimplified. For example, the models typically pay little attention to how the gases alter cloud cover.

DIRE CLAIMS. In the global-warming field, physical scientists are like economists: They can test their theories only by using historical events. But the historical evidence on the earth's climate offers no support for the dire predictions of more extreme greenhouse-effect devotees. The output of CO₂ and other alleged culprits has been growing far more rapidly during the past 50 years than previously. Yet, while the earth has warmed up since the beginning of the century, practically all the warming happened prior to 1940, and it could thus have been caused by other factors. If the large increase in the supply of these gases has so far not had a discernible effect on the world's temperatures, can one have much confidence in claims that the earth will heat up a lot unless production of these gases is sharply cut back?

Of course, public policy on economic and scientific matters cannot always wait until fully persuasive evidence is available. Proponents of major controls on carbon emissions believe that the consequences of global warming are sufficiently worrisome to justify moderate steps now. Running the risk involved in waiting for more decisive evidence, they argue, may result in having to take much more drastic action later.

But many scientists are still far from convinced by warming theories. I believe the U.S. and other countries should heed these skeptics and wait before implementing major restrictions on carbon emissions. In the next couple of decades, new information about crucial parameters of warming models will be-

come available. This should resolve much of the uncertainty, making it clear whether or not these gases will do much damage. It is certainly possible that the global effects have been exaggerated and that large reductions in output and the burning of fossil fuels are not necessary.

For example, there is still considerable uncertainty over the fate of the CO₂ and other greenhouse gases that enter the atmosphere. Each year, some of them get absorbed in soil, trees, water, and other natural materials without causing harm. This absorption rate is generally assumed to range from about 0.5% to 2% per year. If the true rate is at the high end of this range, much of the industrial output during the next couple of decades should not contribute to future warming, since the gases would be absorbed in natural materials over this period of time.

EASING DOWN. No one can predict the future development of technologies that will cut back the industrial demand for coal and other fuels. But modest expenditures, through prizes and other inducements by the nations that gathered at Rio, could speed up progress for the discovery of methods and techniques that reduce the emission of harmful gases. Even if greenhouse theories are right, heavy carbon taxes will not be required if technology improves fast enough.

How bad will the situation be if no actions are taken now and if global warming does turn out to be a serious problem? A study by Ian Parry at the University of Chicago compares the effects on the world economy of sharp reductions in future fuel use with the consequences of moderate reductions over a much longer period. The difference between these economic effects depends on the cost of shifting capital from heavy fuel-using sectors, the damage to crops from warmer temperature, and related considerations.

Although Parry's study ignores new technologies, he still concludes that the cost of delaying action for a couple of decades is probably not large—even if the greenhouse problem is important. The harm from waiting becomes substantial only with what appear to be highly unlikely economic scenarios, such as vast flooding of coastal areas caused by catastrophic climate changes. Global warming is potentially an urgent issue, but the present evidence does not justify panic-induced action. While there should be research and development on reducing emissions of greenhouse gases, with efforts spurred by financial and other inducements, drastic steps should be avoided until much more is known about the validity of warming theories.

GARY S. BECKER IS PROFESSOR OF ECONOMICS AT THE UNIVERSITY OF CHICAGO AND A FELLOW OF THE HOOVER INSTITUTION

Perhaps
the
one thing
worse
than dying
is
outliving
your
money.

It may well be your worst fear. Far more frightening to us, however, is how few people are being told what the future has in store and how to plan for it.

Our purpose in bringing to you the following information isn't to scare you, but merely to help prepare you.

You're probably going to live a lot longer than you think.

Not so long ago, if you were lucky enough to live to retirement age, you'd have very little time left to worry about providing for it.

Today, if you reach the age of 65, and you almost certainly will, the odds are that you'll live until you're 77 years old. And, while the median life span is constantly increasing, the median retirement age is constantly decreasing.

Most people now retire at a little over 60, leaving them with 17 non-working years to provide for. Of course, you could live a lot longer.

To have your birthday pronounced on NBC's "Today Show," it would help to be 105; there are just too many people celebrating their 100th birthday to mention them all.

Social Security will only pay for a small fraction of your retirement needs.

Despite all the dire predictions, we believe Social Security will be around to help you in some form.

But, you can't let it give you a false sense of security; the current maximum benefit is just \$1,088 per month.

If you are fortunate enough to have a company pension plan, this can help too, although on average, it will only account for another 16% of your needs.

There's one other nasty number that will factor into everybody's future: the rate of inflation. For the period 1967-1990, the average rate of inflation was 6.3%, which eroded the purchasing power of \$30,000 held uninvested to just \$7,500.

There are also a number of other phenomena to consider that could prove to be a drain on your finances.

For example, in the future it won't be unusual for your retired parents to still be alive when you retire.

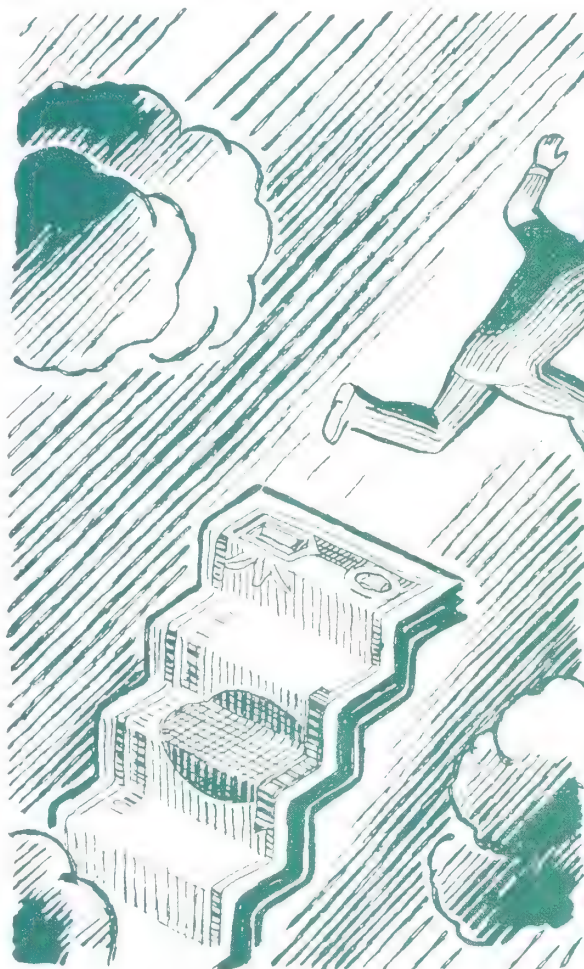
And if, like a lot of other people, you had children late in life, you could be

paying for college at the time people used to save the most for their retirement.

It's not just how much you save, it's how much money your savings earn.

If you've read this far, it should be painfully obvious that you don't need us or any other financial institution to simply tell you to save for your future.

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\$50,000 returning 8% instead of a paltry 4% would yield \$124,000 more over 20 years.

Take advantage of a tax-deferred plan by not only reinvesting the interest, but also the untaxed interest, and you'll see an even bigger return. (The government taxes you enough, don't they?)

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Of course, one of the first principles of building your principal is designing a balanced portfolio. This could, for instance, include cash, bonds, moderate and aggressive growth equities, tangible assets and international investments. And your greatest asset will be a financial advisor you can trust.

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Your objective should be to enjoy retirement, not simply survive it. As such, financial planning is too important to be done by "clipping a coupon" or left to amateurs.

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We also have offices in every major financial center around the world, if they can be of any help to you.

Someone said something recently that we think is worth remembering.

A famous actor's parting advice to the world was, "Live every day."

We'd like to add, "And plan to afford to live every day to the fullest."

Prudential Securities 

BY GENE KORETZ

THE FED'S EASY MONEY POLICY ISN'T MOVING CONSUMERS...

The Federal Reserve has now lowered interest rates 17 times in the past two years, pushing them to levels not seen in decades. Yet the prime object of these actions, the U.S. consumer, whose purchases account for two-thirds of national output, has been conspicuously unresponsive to their effects.

To be sure, the public did start to loosen its purse strings in the first quarter of this year, when real consumer spending moved higher at a respectable

One reason for this, of course, is the phasing-out of interest deductibility for most borrowing since the passage of the Tax Reform Act of 1986. By reducing the incentive to use credit, this measure also reduced the consumer's sensitivity to rate changes. At the same time, however, notes Cahn, producers have come to rely more and more on temporary price cuts to spur demand. Indeed, the surge in consumer spending in January and February of this year was largely inspired by price-slashing by auto makers and general merchandisers seeking to move bloated inventories.

The problem with this tactic, notes Cahn, is that "its growing use has made consumers aware of their aggregate power—and increasingly prone to exercise their ability to cause price declines by refusing to buy at other times." And the need to resort to frequent discounting leads to greater cost-cutting efforts by business, which means reduced hiring and income growth. In this no-win situation, says Cahn, monetary ease by the Fed has lost effectiveness.

LOW PRICES: A KEY TO SPURRING CONSUMPTION



*CITED BY RESPONDENTS TO UNIVERSITY OF MICHIGAN CONSUMER SURVEYS IN JUNE, 1986, AND JUNE, 1992
DATA: UNIVERSITY OF MICHIGAN

5% annual rate after posting no increase at all in the final quarter of 1991. But since then, inflation-adjusted household outlays appear to have crept higher at a minuscule 1% pace.

Since easier money is virtually the only policy lever the government possesses to stimulate consumption (the huge deficit precludes much fiscal stimulus), the key question is why consumers haven't responded in kind. The common explanation is that they are inhibited by sluggish income growth and the need to reduce high debt loads. But economist Rosanne M. Cahn of First Boston Corp. thinks changing consumer buying attitudes are also a big factor.

Cahn notes that consumer surveys indicate that low prices have become more important than low interest rates as incentives to buy. In 1986, for example, when both interest rates and inflation were relatively low, the lure of low rates was strong. But since then, low rates have steadily lost ground to low prices as a spur to consumption (chart).

...AND IT MAY NOT BE AS EASY AS IT SEEMS

Despite the sluggish economy, many mainstream monetarists argue that monetary policy is excessively easy, increasing the risk of accelerating inflation down the road. They note that the Federal Reserve has been pumping reserves into the system at a rapid rate, causing the monetary base (bank reserves and currency in circulation) to surge at a 10% pace and M1, the narrow money supply, to explode at a 14% annual clip over the past six months.

Economic consultant Robert H. Parks has long insisted the Fed has been far too cautious, however. His rationale: While the seasonally adjusted monetary base has soared by about \$30 billion over the past year, two other factors have offset this stimulus: sharp growth in currency in circulation and a rise in required reserves.

Park notes that the currency component of the monetary base has risen \$18 billion over the past 12 months. But he points out that currency is "low-power money," which can't be used to support multiple credit expansion the way reserves can—by funding loans, which are lent out again and again through the redeposit process. "Currency growth is much less stimulative than growth of high-powered reserves," says Parks.

Meanwhile, the part of reserves dubbed "required reserves"—those which

banks must keep on deposit with the Fed and can't lend out—have also risen by some \$8 billion over the past year, says Parks. That's because low interest rates on savings deposits have led consumers to shift funds out of time and savings accounts, which have no reserve requirements, into checking and other transaction accounts, which do.

The upshot, says Parks, is that increases in currency in circulation have required reserves over the past year have almost completely offset soaring reserve growth, leaving "almost nothing" to support credit expansion. That, he adds, is a major reason why real credit use in the private economy continues to go nowhere.

ANALYSTS AND BROKERS: TOO CLOSE FOR COMFORT?

Federal law requires full-service stock brokerage firms to erect a "Chinese wall" between their investor service and investment banking operations. The scuttlebutt on Wall Street is that financial analysts who work for stock firms often tend to portray a company more favorably if it's a client of the firm's investment banking department.

That notion is the thesis of a study by Amitabh Dugar and Siva Sivasubramanian of Michigan State University's Broad Graduate School of Management. The study reviewed reports covering 256 companies issued by stock analysts working for 54 brokerage firms in the 1983-86 period. In essence, it compared investment reports issued by firms with investment banking relationships with the companies being analyzed with similar reports issued about the same time by firms with no such ties.

The study found that stock analysts were significantly more optimistic about a company's future prospects if it happened to be an investment bank client of their employer. They tended both to project higher earnings and issue stronger buy recommendations.

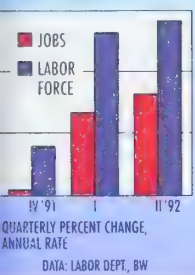
While such optimistic bias may stem from a desire to please a firm's client, the study found no relationship between the degree of optimism exuded by analysts and the size of the company being analyzed—a clue to the size of potential fees. What's more, it found that stock price movements were more influenced by nonbiased forecasts than those issued by firms assessing their own clients.

"In other words," says Nathan, "the market isn't fooled by such analysts' excessive optimism. It takes their view with a healthy grain of salt."

THE FED JUMPS IN OR SOME SECOND-HALF HELP

Two things seem certain this summer: The "Dream Team" will bring home the Olympic gold in basketball, and the U.S. economy will be a continuing source of disappointment. The shockingly weak job data for June make the latter point painfully clear. However, the economy does have one player on the bench that it can count on to prevent a rout: the Federal Reserve.

WHY THE JOBLESS RATE IS RISING



On July 2, the Labor Dept. reported a large and broad shrinkage in June payrolls. Job losses totaled 117,000 at a time when most analysts expected a gain of that magnitude. And the unemployment rate jumped to 7.8%, from 7.5% in May and 7.2% in April, as the labor force continued to surge ahead of the economy's ability to create new jobs (chart). Last month's jobless rate was the highest since March, 1984.

Less than an hour after the release of the employment report, the Fed cut its official discount rate for the seventh time since its peak in December, 1990, and it trimmed the market-moving federal funds rate for the eighth time since the recession began in July, 1990. The discount rate now stands at 3%, and the Fed's new target for the federal funds rate is 3¼%. Both levels have not been seen since the Kennedy Administration.

FINALLY, LONG RATES TAKE A DIP

The rate cuts will help to keep the economy dribbling along this summer, but with the recovery already facing tough opposition, growth isn't likely to score on any juggling drives to the basket (page 60). Commercial banks wasted no time cutting their prime rate from 6½% to 6%, which lowers the cost of various consumer loans. Short-term market rates fell in tandem with the federal discount rate, and long-term rates declined as well.

Lower long-term rates are the best news. They have been stubbornly high, particularly in relation to short-term rates. After hovering above 8% in early May, the yield on 30-year Treasury bonds fell to 7.6% by July 8, only a bit above the five-year low of 7.4% hit back in January. And long rates may well head lower.

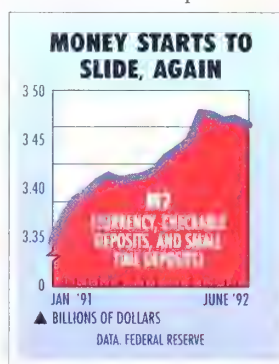
The reason: The dismal job data drove home the point that the bond market that a recovery strong enough to assure inflation is just not in the cards. Also, the likelihood of any tightening of Fed policy for the rest of the year now seems equally improbable. Late declines will breathe life back into housing de-

mand, but a strong response isn't likely with consumers facing slow growth in jobs and incomes and the need to repair their fragile finances. Still, housing had faltered this spring largely because mortgage rates had risen.

But by July 3, the average fixed rate on 30-year mortgages was already down to 8.43% from 8.52% the week before, according to HSH Associates. When the full impact of the Fed's actions are felt, 30-year mortgages will challenge January's 20-year low of 8.31%, which fueled big housing gains earlier this year.

But the biggest benefit of lower interest rates in a debt-burdened economy is the opportunity for consumers and businesses to refinance their debt. Refinancing is a crucial part of the reliquification process that is necessary for a lasting recovery. It boosts cash flow for businesses and puts more money in consumers' pockets.

The Fed gave three reasons for its latest moves. Listed in order, which is usually a ranking of their importance, it cited slow money growth, low inflation, and an uneven recovery. The Fed's favorite measure of the money supply, M2, fell a steep \$10.6 billion in the week ended June 22. The drop continued a pattern of weakness that began in March (chart).



Many economists—and the Fed itself—had begun to play down the importance of M2 in the outlook. As long as the recovery looked solid, money growth below the Fed's target could be dismissed as an aberration.

Now, the central bank may reassess that view. Slow money growth along with a struggling economy would be grounds for the Fed to pull the trigger on yet another easing move this summer, if that combination persists. But as far as half-point cuts in the discount rate are concerned, the Fed has only six bullets left.

JOB LOSSES WERE ACROSS THE BOARD

The June employment report makes another rate cut a real possibility. The disturbing feature of the job losses was their breadth. Of the 356 industries surveyed, only 43% added workers to their payrolls last month. That was the lowest percentage since April, 1991.

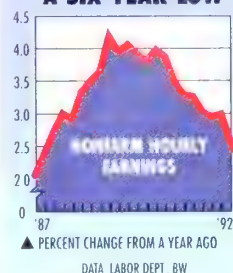
Goods producers bore the brunt of June's job losses, as factories trimmed their payrolls by 58,000 workers and construction handed out 32,000 pink slips. But service producers also made cuts. Jobs in retail and wholesale trade fell by 20,000 and 16,000, respectively. Busi-

Business Outlook

ness, health, and other personal services—normally a strong sector—let go 15,000 employees.

However, the June data may well overstate the economy's problems. The consistency of the weakness in the payroll indicators, coming after fairly uniform signs of strength in May, suggests a quirk in Labor's seasonal adjustment. The June survey was done earlier than usual, and that may have understated student employment.

WAGE GROWTH HITS A SIX-YEAR LOW



The job trend remains upward. The three-month average of jobs continued to rise in June, reflecting payroll gains of 177,000 in April and 93,000 in May. That's unlike last November, when the three-month trend began to fall, signaling that the recovery was faltering.

Nevertheless, the job numbers put the handwriting on the wall for second-quarter gross

domestic product. Hours worked, an indicator of overall output, rose at an annual rate of 0.7% last quarter, down from 1.1% in the first quarter. Unless productivity growth exceeds its first-quarter pace, which is unlikely, real GDP will fall short of the first quarter's 2.7% gain.

WALLETS LOOK MIGHTY SKINNY

The recovery's biggest problem is the absence of a healthy consumer sector, which is two-thirds of GDP. Consumers' troubles are twofold: Heavy debts have left households in poor financial shape, and the permanent nature of recent job losses is a drag on the income growth that is necessary for households to mend their balance sheets (chart). The Fed's rate cuts address both of these problems, but solving them will take time.

Income growth was certainly lacking in June. Average hourly earnings rose by 2¢ last month, to \$10.58. That small rise plus the shorter workweek—34.3 hours com-

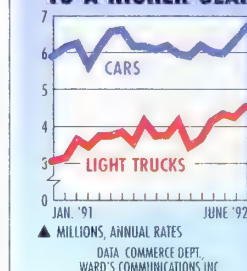
pared with 34.6 hours in May—and the June job losses imply a weak showing for personal income.

If there is a bright side to slower wage growth, it's the absence of wage pressure on inflation. Indeed, hourly earnings last quarter were up only 2.4% from a year ago, the slowest yearly pace since 1987.

Still, judging by the recent pickup in car sales, consumers are not in such dire straits that they are ready to throw in the towel. Sales of domestically made autos jumped in late June to an annual rate of 7.6 million, bringing the monthly pace to 6.8 million. Fleet sales and rental-car companies lifted car buying in late June, but still, the monthly pace was the strongest in 18 months.

Moreover, those sales numbers do not capture the growing importance of light trucks, such as minivans and jeeps. Sales of U.S.-made light trucks jumped to an annual rate of 4.5 million in June (chart). Since January, car sales are up 15%, but sales of cars and trucks together are up 21%. The trend suggests that vehicle demand is stronger than the car numbers alone imply.

AUTO SALES SHIFT TO A HIGHER GEAR



Rising car sales may be a sign that consumers are not making much progress in lightening their debt burden, however. Installment debt outstanding, down by \$2 billion in May, has been shrinking for more than a year, but that's mainly because of falling auto credit. Rising car sales suggest that consumers are substituting leasing and home-equity loans for traditional installment loans. Consequently, nonauto installment debt as a percentage of aftertax incomes remains very high.

Working under the twin burdens of fat debts and skinny wallets, the performance of consumers this summer will be far from Olympic. But thanks to the Fed's lower interest rates will help keep them in the game.

THE WEEK AHEAD

CONSUMER PRICE INDEX

Tuesday, July 14, 8:30 a.m.

Consumer prices in June are expected to have risen by 0.3%, according to the weekly survey of economists by MMS International, a unit of McGraw-Hill Inc. Excluding energy and food, the CPI is also expected to post a 0.3% increase. If so, yearly inflation will stand at 3.1%, with core inflation at 3.9%.

RETAIL SALES

Tuesday, July 14, 8:30 a.m.

The economists expect retail sales to rise a modest 0.5% in June. Stronger car sales will help the month's gain, but even excluding cars, the analysts forecast a 0.4% increase. Lackluster reports

from chain stores in recent weeks suggest the tepid showing.

INDUSTRIAL PRODUCTION

Wednesday, July 15, 9:15 a.m.

The MMS projections call for a 0.3% decline in June industrial production. The drop is expected because factory employment fell by 58,000 in June, and because the factory workweek dipped to 41.1 hours from 41.3 hours in May. The industrial operating rate likely slipped to 78.6% in June from 79% in May.

BUSINESS INVENTORIES

Wednesday, July 15, 10 a.m.

The forecasters expect inventories held by manufacturers, wholesalers, and retailers to rise by 0.2% in May.

HOUSING STARTS

Thursday, July 16, 8:30 a.m.

The MMS survey calls for June housing starts to dip to 1.2 million from 1.3 million in May. Starts had surged 11% in May, so some fallback in June would not be unusual. Also, sales of new single-family homes through May had declined for four consecutive months.

MERCHANDISE TRADE DEFICIT

Friday, July 17, 8:30 a.m.

The economists expect the trade deficit to shrink to \$6.2 billion in May, after surging to \$7 billion in April. They look for exports to post little growth in May to \$36.5 billion, while imports are projected to fall to \$42.9 billion.



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Top of the News



Bill Clinton: Clinton

'THE SECOND LOOK IS HAPPENING'

SUDDENLY, CLINTON IS A VIABLE CANDIDATE—BUT CAN HE BUILD MOMENTUM?

The saga of Arkansas Governor Bill Clinton has borne a striking similarity to one of those zap-bang Terminator movies. As Clinton marched through the Democratic primaries, he absorbed blow after blow to his character, record, and business dealings. After each new hit, holes appeared in the metallic skin that's supposed to shield modern Presidential candidates from harm. But Clinton kept staggering forward, flashing that cyborg smile of his—and promising that at some point, he'd get a second look from voters who had consigned him to a scrap heap marked "slick and useless."

Now, just as Democrats are heading for New York City and their July 13-17 nominating convention, there's a stirring amid the ble. To the surprise of President Bush and GOP partisans such as Ur-Terminator Arnold Schwarzenegger, Clinton's mounting that he may be getting the appraisal he needs to mount a credible White House challenge this fall. "The second look is happening," says Democratic strategist John A. Sasso. "Clinton is putting substance on the line, while George Bush and Ross Perot are scratching their eyes out."

In reality, Clinton remains a wounded candidate. Emory University political scientist Merle Black still considers him "a shot." But there's no question that Arkansas is back in the Presidential race, a fierce three-way contest that's much up for grabs.

What has led even a hostile business community to take notice, Clinton has answered the Slick Willie questions,"

says William G. Thomas, chief executive of Michael Baker Corp., a Beaver (Pa.) engineering firm. "In the beginning, people laughed at him. Now, he's a serious candidate."



**CLINTON'S
SCRAP WITH
JESSE
JACKSON,
ALONG WITH
HIS DOGGED
'KEEP ON THE
MESSAGE'
STRATEGY,
PERKED UP
HIS AWFUL
POLL
STANDINGS**

Clinton's mini-comeback is partly attributable to luck, partly to his dogged "keep on the message" strategy. After weeks of obscurity, he at last grabbed the spotlight, thanks to his dustup with Jesse Jackson and the issuance of a new economic manifesto. Says Texas Land Commissioner Garry Mauro, Clinton's top political gun in the state: "Clinton took the first step back when he stood up to Jackson." The more muscular stance, combined with constant harping on Clinton's economic strategy, helped perk up his awful poll standings, moving him from the "terminal" category to the "we have a pulse" column.

NO PROBLEMO. As for Clinton's 43% negative ratings, the word from Little Rock is: "No problemo." The reason for the bravado is an anemic economy (page 60) that has boosted the President's own unfavorable rating to 50% in a recent Gallup Poll. According to a June 17-20 *New York Times*/CBS News survey, 78% of the public disapproves of Bush's handling of the economy. The President's swoon has given Clinton an opportunity to redefine himself as a man who inhales economic statistics—and promises real change from a dismal status quo. "Everything is being driven by the economy," asserts Clinton pollster Stanley Greenberg. "It's going to win the election for us."

Even independent Perot has encountered the kind of media meat grinder

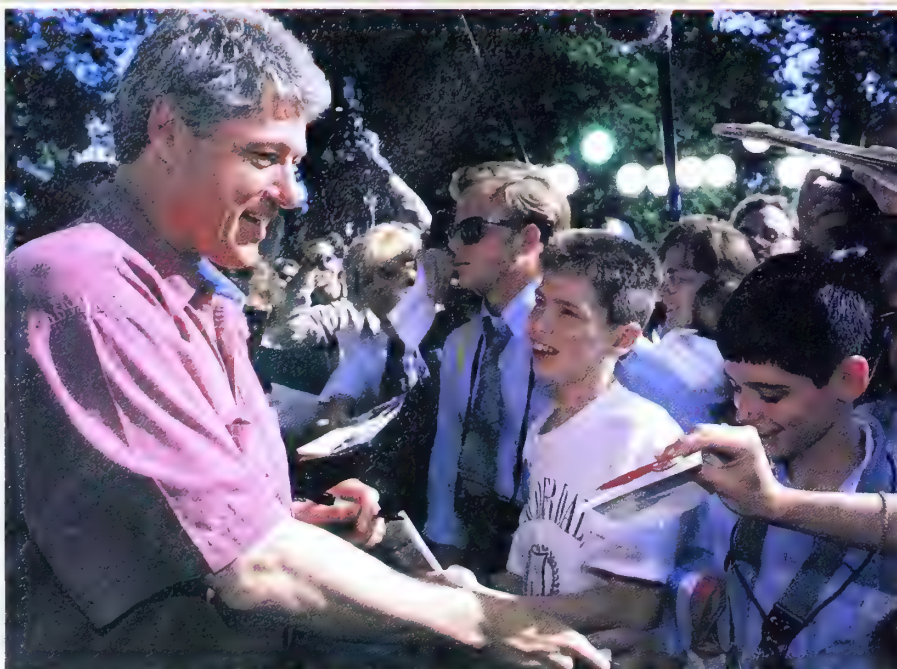
that Clinton knows all too well. The Texas billionaire's momentum has been slowed by GOP assaults on his imperious style and his history of compiling intelligence dossiers on foes. The result is an off-kilter Perot image that Democratic consultant Bob Squier describes as "lifestyles of the rich and weird."

The woes besetting Bush and Perot have lifted Clinton. But tempering the joy is the realization that second look or no, he still may be unable to shake his reputation for political expediency and moral lubricity. "Clinton is getting a second look, and he'll get a third," scoffs GOP pol Haley Barbour. "But the guy's like a centipede. Little shoes will be dropping right up to election day."

No matter what voters at large decide, many executives still have doubts about Clinton. Most questions arise over his independence—or lack thereof—from Democratic interest groups and his faith in big, new federal spending programs.

Right now, Clinton is too relieved by his revival to worry much about such criticism. To ensure that his second look doesn't become a fleeting backward glance, he plans a convention tableau that depicts fractious Democrats as committed to a new, more moderate platform. In New York, Democrats will extol Clintonism, which elevates economic growth over income redistribution. Important subthemes: a focus on the squeezed middle class and a new compact that requires recipients of government largess to give something back to the nation that came to their aid.

'STRUGGLE.' Under Clinton's "New Covenant," business would get tax breaks but would be expected to help train workers. Families would gain guaranteed financial aid to send their kids to college, but new graduates would either have to repay their loans or perform government service. And the poor would get expanded government assistance on the proviso that welfare recipients get a job after two years. Clinton's platform "looks like a winner at the middle-class



PRESSING FLESH IN INDIANA: "PEOPLE ARE STARTING TO LISTEN TO HIS IDEAS"

box office," says Jay Severin III, a GOP consultant. "He's finally dragged his party kicking and screaming into the political center where elections are won."

Another convention goal will be a complete makeover of Clinton's tawdry image. "We need to communicate that this is a man who has lived a life of struggle," says Greenberg. "Because folks have heard about Yale, Oxford, and bailing out of the draft, they think he's lived a life of privilege." By stressing Clinton's upbringing in the hard-scrabble hamlet of Hope, Ark., Democrats want to draw a sharp contrast with patrician Bush and ultrarich Perot.

Thus redefined, Clinton will charge out of New York for a tour of the heartland, where he'll attack "Reagan-Bush trickle-down economics" and promise to "put people first." Says a Clinton advis-

er: "Michael Dukakis went into hibernation after his convention. We're going on the offensive after ours."

Clinton's emphasis on the middle class hasn't won him many converts so far among Southern "Bubbas" or suburban independents. And it angers blacks, liberals, and other traditional Democratic constituencies. In a three-way race, activists argue, Clinton needs to energize his base rather than vie with Bush and Perot for suburbanites. Sneers one liberal operative: "Clinton's message is, 'Screw Jesse Jackson, screw Jerry Brown.' He's going to be the Great White Hunter, searching for the Southern white male."

Clintonomics is no turn-on for Corporate America, either. His proposal to tax the wealthy while spending \$200

billion on public works and investment incentives worries executives. Clinton's plan "translates into more government spending and higher inflation," says Richard W. Snyder, chief of Dallas-based SnyderGeneral Corp., a manufacturer of air-conditioning equipment.

TALK AND FACTS. Business is also not keen on Clinton's reliance on government mandates. He wants employers to expand health insurance for workers, provide unpaid leave for parents, and bankroll a national apprenticeship and training plan. "Clinton is very credible on education and training," says Jerry Jasnowski, president of the National Association of Manufacturers. "But he has no understanding of how regulatory burdens and things like product liability laws can hurt business."

Whatever flak Clinton is getting for the specifics of his economic plan, some applaud him just for drafting one. Says Gary A. Marple, a principal in Commonwealth Strategies Inc., a Lincoln (Mass.) management consulting firm: "I've seen Clinton buckle down and deal with some issues. Bush doesn't seem to think a program means anything, and we haven't heard from Perot yet." Adds Pittsburgh Steelers President Daniel M. Rooney: "I don't agree with all [of Clinton's] issues. But at least he's talking about them."

If talk, fact sheets, and a prodigious memory for statistics were all Clinton needed to get to the White House, he'd be the favorite. Right now, though, he's still too weighed down by his negative image to be considered a serious alternative by most voters. Just the same, when a candidate of Clinton's resilience promises "I'll be back," you can't just dismiss it as the stuff of science fiction.

By Lee Walczak. Douglas Harbrecht, and Richard S. Dunham in Washington, and Stephanie Anderson Forest in Dallas. Maria Mallory in Pittsburgh, and bureaus reports



CLINTON SPEAKS

In the days leading up to the Democratic convention, Arkansas Governor Bill Clinton met with *BUSINESS WEEK* Washington Bureau Chief Lee Walczak and Economics Correspondent Howard Gleckman. He gave his views on industrial policy, the deficit, executive pay, and more

ON HIS PROPOSAL TO LIMIT THE CORPORATE TAX DEDUCTION FOR EXECUTIVE SALARIES

"In the ideal world, what you'd do is give business more incentives to reward executives on a long-term basis, and you wouldn't care how they made as long as their compensation was related to productivity and job growth. If someone can show me a practical way to do that instead of saying 'no deductions for compensation over \$1 million,' I'd be happy to entertain that."



RUSSIAN PRESIDENT YELTSIN MADE TIME FOR CLINTON DURING HIS WASHINGTON VISIT

NOW, CLINTON IS PUSHING FORWARD IN THE FOREIGN FRONT

Bush's economic woes and Iraqgate give the Democrat a fresh opening

When Arkansas Governor Bill Clinton began his quest for the Presidency, foreign policy was not George Bush's slam-dunk issue. After all, Bush presided over the collapse of the Soviet empire and forged the international alliance that forced Iraq out of Kuwait in just 100 hours. Foreign policy remains Clinton's best—some would say his—re-election card. But Clinton sounds a lot less confident by the President's diplomatic prowess lately. Harping on the Administration's pro-Baghdad tilt in the years following the Iran-Iraq war, Democrats are increasingly casting the gulf conflict as a war that may not have been necessary. The continued presence of Iraqi dictator Saddam Hussein, still strut-

ting defiantly across the Mideast stage, underscores their point.

Clinton also feels freer to question the President's international record because of growing disenchantment with Bush's handling of the economy. Revived doubts about Bush's domestic stewardship ought to bring renewed attention to a key tenet of Clinton-style internationalism: The New World Order begins at home.

Indeed, Clinton views as quaintly outdated Bush's tendency to see world events through a geopolitical prism. By contrast, Clinton envisions a new era in which former enemies need our help, while old friends pose major competitive challenges. By making economic competitiveness his central goal, Clinton seems willing to risk heightened

tensions with allies such as Japan. And echoing Jimmy Carter's clarion call for human rights, President Clinton would aggressively back fledgling democracies—even at the expense of frayed ties to China, Syria, and other authoritarian regimes.

'COMPETE AND WIN.' Clinton's lack of foreign experience unsettles U.S. allies. A typical view comes from Helen Kortunova, of the U.S.-A.-Canada Institute of International Relations: "Bush is more popular" with Russians, she says, "because Clinton is not perceived as a strong leader."

Back home, the verdict may be kinder. Voters are focusing on economic anxiety, not the cold war's end. Clinton's promise to make the U.S. "compete and win again" in the global marketplace could bring them into his camp.

Republicans scoff that Clinton is a foreign policy novice fresh from the piney woods. They dismiss many of his initiatives as little more than a repackaging of current policy. But Clinton has at least mastered the vocabulary of international diplomacy, a first step toward being taken seriously on the subject. In an April speech, he made a more compelling case for aiding the former Soviet Union than Bush ever has. "It is deeply irresponsible to forgo this short-term investment in our long-term security," Clinton said. "Being penny-wise and pound-foolish will cost us more in the long run in higher defense budgets and lost economic opportunities."

Unlike former diplomat Bush, Clinton has few connections in foreign capitals. But he's hardly a Jimmy Carter provincial. A graduate of Georgetown University's School of Foreign Service, he was a Rhodes Scholar at Oxford University. As governor, he visited Japan and other Asian countries three times, Western Europe twice. When Russian President Boris Yeltsin came to Washington in June, he met briefly with Clinton. "Bill's comfortable with the nuances of foreign

ECONOMIC PLAN PROPOSES DEEPEST CUT IN THE DEFICIT

[the budget], we have to make a choice between investment for long-term economic consumption. The best thing for the health of the American economy is to bring the debt down as much as possible, which is consistent with the need for our future and to get growth going with my tax credits and reducing spending, I'm trying to focus on the manufacturing base and the technologies of the future that will likely generate a lot of jobs in the private sector"

ON HIS TILT TOWARD MANUFACTURING

"There's nothing wrong with the service industry. But I believe that manufacturing jobs have a higher multiplier. And while we have had terrific increases in manufacturing productivity in the 1980s, we should do better. We only have about 16% of our work force in manufacturing. The great exporting countries have more—Japan 28%, Germany 32%. If we could move toward 20%, we would have a stronger America"

ON INDUSTRIAL POLICY

"Every country needs a national economic strategy. Ours today is to keep taxes low on upper-income people and corporations and

[hope] they'll invest and everything will be fine. That doesn't work. The economic strategy that has been working around the world is building strong free-market economies through cooperative relationships between government and the private sector that emphasize education, a well-trained work force, high-quality infrastructure, and shared R&D in emerging technologies"

ON HIS CHANCES FOR A POSTCONVENTION TURNAROUND

"We've had a great two weeks. And the polls now show my favorable-unfavorable [ratings] doing better.... You've got to be patient. Five months is a lifetime in politics"

policy," says Representative Dave McCurdy (D-Okla.), who advises Clinton on defense matters. "He seems to enjoy it, and he's always been well connected with people enmeshed in foreign policy."

Clinton's unpaid foreign affairs advisers include longtime friends Samuel R. Berger, a Washington lawyer and former official in Carter's State Dept., and Michael Mandelbaum, an East-West expert at the Council on Foreign Relations, as well as Warren M. Christopher, a Carter-era Deputy Secretary of State. Heading the team is Anthony Lake, professor of international relations at Mount Holyoke College and Berger's former boss at State.

No wild-eyed radicals here. And the mainstream quality of the Clinton camp's advice shows in his positions. Clinton is an internationalist who thinks the U.S. should continue to play a leading role in NATO. He endorses a U.S. "Democracy Corps" to school Russians in the free market, an idea that Bush has adopted. Leery of protectionism, Clinton backs a free-trade pact with Mexico, with some revisions. And he blames the U.S. for most of America's trade deficit with Japan, though aides say he would be quicker than Bush to counter unfair trading practices.

MAINSTREAMER. Still, Clinton would make some sharp changes in direction. His top priority: restoring America's global economic stature. "Clinton knows that you can't play in the new game if you don't have any chips," says Mandelbaum. Clinton calls for a modest industrial policy that boosts investment in education and training, while fostering business-government partnerships to rev up civilian R&D in critical technologies. And he's seeking bigger defense cuts than Bush and even some Democrats.

To many GOP stalwarts, Clinton's approach doesn't represent much of a departure from Bush Administration policy. But the cold war's demise has dissolved partisan differences on many issues. Says former Carter domestic czar Stuart E. Eizenstat, a sometime Clinton adviser: "Clinton doesn't need to have radically new programs. He needs to show he's mainstream and capable."

Mainstream. Capable. And decidedly nonscary. That's the sales pitch that the Clinton camp will use to assure voters that the man from Arkansas can succeed in an arena that, until recently, has been George Bush's personal playground. Nowadays, a newly confident Clinton feels free to blast Bush for "reactive, rudderless, and erratic U.S. diplomacy." Is that any way to talk about the Desert Storm President? It is now.

By Amy Borrus in Washington, with Deborah Stead in Moscow and bureau reports

Commentary/by Mike McNamee and John Templeman

SEVEN INDUSTRIAL POWERS —AND SO LITTLE POWER

With America struggling to climb out of recession, and with Germany and Japan tiptoeing along the precipice of their own downturns, you would think the leaders of the world's seven largest industrial nations would have had plenty to do at their July 6-8 economic summit in Munich. Instead, they did almost nothing.

It might seem tempting to scrap the whole process. That would, at least, save the \$23 million German Chancellor Helmut Kohl spent to host the Group of Sev-

ely British Prime Minister John Major came to Germany determined to break the U.S.-European logjam in the sixth round of talks to extend the Agreement on Tariffs & Trade. The deal could spark nearly \$200 billion in new trade, slash government spending in Europe and the U.S., and provide the best possible aid to struggling World and former East bloc economies. But GATT is stalled over a narrow deal about farm trade: Washington wants the European Community to cut its



MUDDLE IN MUNICH: ISN'T ANYONE HERE ABLE TO TAKE CHARGE?

en. But the meetings don't have to be fruitless: Past summits have been more than photo opportunities for world leaders and showcases for local cuisine.

Take Bonn, 1978. Then, with America's European security umbrella giving it substantial clout, the U.S. pressured Germany into acting to pull an oil-shocked world out of recession. And at Tokyo and Venice in the mid-1980s, the U.S. led a G-7 coalition to rein in a runaway dollar.

MAJOR ACTION. But three years after the end of the cold war—and after two decades of underinvestment and overspending—America's economy is sputtering. That has badly eroded U.S. clout. And while others stepped up to try to lead on particular issues, the results were disappointing. No one, it seems, is ready to assume America's mantle.

The boldest summitteer was undoubtedly

tural-export subsidies by 24% over the next years, while the EC is offering 20%.

Major, noting the huge payoff to the group to set a deadline for a new trade pact. But the British Prime Minister has little at stake in agriculture. His position was shot down by French President François Mitterrand, whose farmers refused to take to the streets over the issue. Mitterrand also faces a contentious referendum on ratifying the Maastricht Treaty on European unity. Unless

If Japan is playing the role of the little brother in world affairs, then the U.S. is suffering from the opposite problem.

the summiteers accepted the con- of one Japanese official. Trade e said, "are too technical for politi- deal with, but too political for ex- cope with."

other world leaders even attempted the group. Japan, long expected to financial clout into global leader- brought only a modest agenda to the Prime Minister Kiichi Miyazawa his fellow leaders to endorse To- to reclaim four islands seized by ter World War II. The world's larg- cal exporter made it clear that any- yond their existing pledge of \$2.65 aid to the Russians depended on the dispute. The G-7 got the mes- ging Russian President Boris Yelt- rap up the matter quickly.

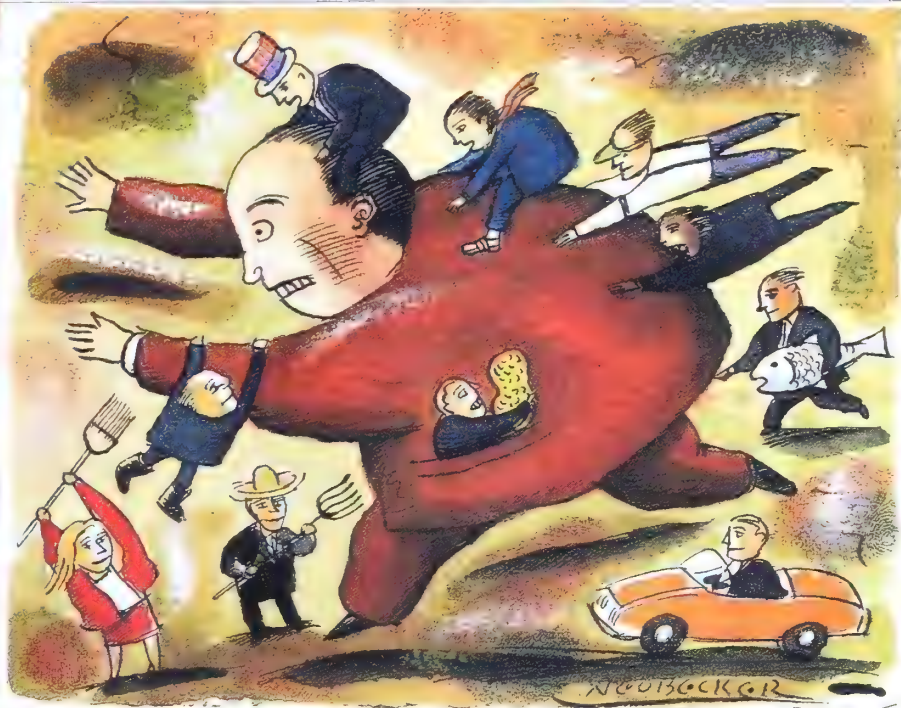
economic matters, Japan had little Despite heavy pressure from the dministration to spend more at stimulate global growth, Miyazawa d only to boost his budget this he Japanese economy doesn't re- o last spring's interest-rate cuts. panese also made it clear they t reinflate their economy to meet 's demands.

MESS. If Japan, still uncomfortable newfound financial and political continues to play the role of little world affairs, then the U.S. is g from the opposite problem. Amer- lers still are talking as though sum- olve around Washington's whims.

Treasury Secretary Nicholas F. He insisted that his campaign to own foreign interest rates spurred growth plans in Germany and Ja- he overlooked the fact that those re crafted in response to domestic ns, not American pressure.

ity, U.S. leadership was as hard to the traveling White House head- —located some 20 minutes from mit's real action. True, President pped shepherd through a tough it on the Yugoslav crisis. But he come up with any concrete econo- mes to show voters that his foreign is yielding payoffs at home.

up of seven equally weak powers ive. The U.S., despite its current , is still the world's largest econo- best candidate for global leader- it can't fill that role unless Wash- evelops a stronger sense of where the world to go, cultivates persua- er than tough talk, and demon- s own resolve by reining in its budget deficit. As Secretary of es A. Baker III puts it: "Leader- n't mean doing it all by yourself." e of it is, no one seems to know o it together, either.



HOW MANY BROOM-MAKERS DOES IT TAKE TO KILL A TRADE PACT?

Their lobbyists—and lots of others—are fighting the U. S.-Mexico deal

Representative Terry L. Bruce (D-Ill.) figures a North American free-trade zone is a good idea. But he's not willing to abandon the broom-makers of downstate Illinois to get it. So in May, when the House decided whether to simplify consideration of a free-trade pact, Bruce voted no. At stake are the jobs of 1,000 to 3,000 of his broom-winder constituents—Old World craftsmen who hand-wire sheaves of broomcorn to wooden handles.

Broom-makers figure a free-trade deal would make their products, now protected by a 32% tariff, too expensive to compete against cheaper Mexican brooms. "These are family-owned, labor-intensive businesses, heavily concentrated in my district," says Bruce. "They're worried."

They're not the only ones. A broad coalition of manufacturers and growers is already lining the lobbies of the Capitol in a vigorous fight against the North American Free Trade Agreement (NAFTA). Their demands come just as weary negotiators from the U.S., Canada, and Mexico wrap up tentative agreements in financial services, environmental protection, and transportation.

Inking compromises on those issues was supposed to be the tough part. Now negotiators have to deal with opposition to NAFTA from manufacturers of ce-

ment, glass, athletic shoes, auto parts, and furniture; sugar, peanut, and tobacco growers; citrus, cucumber, and tomato farmers; tuna and pepper canners; and a dozen others who have come out of the woodwork to oppose parts of the treaty. They're joined by a diverse army of "public interest" lobbyists and groups, including Ralph Nader, the AFL-CIO, the Sierra Club—even the United Methodist Church Board.

ELECTION DEADLINE. As a result—and despite the support of export giants such as Caterpillar Inc. and Pfizer and business groups including the U.S. Chamber of Commerce—Congressional ratification of the trade agreement is now far from assured. Indeed, the upcoming lobbying battle could make the 1986 contest over tax reform look tame. "Last year, we were a little complacent, and we didn't realize the strength of the opposition," says Frank Kittredge, president of the 500-member, pro-NAFTA National Foreign Trade Council. The group will meet in Washington on July 13 to plan its strategy.

NAFTA opponents have their best chance at killing the trade bill in the House. Even if the Bush Administration wraps up the agreement this summer, as appears likely, little time remains for a vote before preelection adjournment. A

record number of retirements and tough election fights means that as many as 150 new faces may appear in Congress next year. They will have to be "educated" by lobbyists about the bill, and it's not certain that the pro-NAFTA business lobby has the support it needs to do the job. "A much broader coalition, including ethnic groups, port authorities, labor and farm groups, and cities, is going to be necessary," says Norman A. Bailey, a Washington economics consultant.

Even in the free-trade Senate, where the fast-track NAFTA vote was approved 59-36, quick NAFTA ratification is no longer considered a sure thing. An amendment sponsored by Senator Donald W. Riegle Jr. (D-Mich.) would change the Senate rules under which NAFTA would be considered, effectively giving members the opportunity to rewrite the pact. The Riegle proposal would allow floor amendments to the agreement in five areas: labor standards, environmental standards, unemployment and retraining benefits, rules of origin, and dispute settlement. Riegle's resolution, which already has 30 co-sponsors, would not be subject to a veto by President Bush.

The Bush reelection campaign may be the free-trade pact's best friend in Washington. The Administration wants an agreement initialed by Aug. 1 and signed by Nov. 1. Bush strategists are firmly convinced that the issue is a winner in the vote-rich border states of California and Texas and that it may help the President regain the Hispanic support he has lost to Ross Perot, who opposes key provisions of NAFTA.

TRAP AHEAD. The Bushies also figure a NAFTA deal could hurt Democrat Bill Clinton. The likely nominee supports a trade agreement. But if congressional Democrats who supported the 1988 trade deal with Canada vote against NAFTA, they leave themselves open to charges of racial insensitivity. "The Republicans can ask why Democrats supported a free-trade agreement in 1988 with white Canadians but not with brown Mexicans in 1992," says Alan Reynolds, director of economic research at the conservative Hudson Institute.

Despite the pitfalls, NAFTA still has a better-than-even chance to pass the Congress early next year, especially if it is accompanied by strong guarantees of a border cleanup, provisions for Mexican workers' rights, and U.S. worker protections. Recognizing that, some broom-makers are quietly seeking a long phaseout of up to 15 years for the broom tariff. "Otherwise," says one, "what's a 50-year-old broom-winder going to do?"

By Paul Magnusson in Washington

Commentary/by Howard Gleckman

WHY A TAX BREAK FOR DEVELOPERS WOULDN'T BE CONSTRUCTIVE

Bad ideas never die. They just wait for the next tax bill. A case in point: Buried in a House-passed urban-aid bill is a measure that would allow real estate developers, brokers, and agents to write off their losses against other investment profits.

The bill, which stands a good chance in the Senate, would be a windfall for real estate pros. But it will do nothing

for outside investors. And, most important, there is no evidence that the bailout will generate any new construction or create jobs.

The real estate pros say it's only fair. After all, they argue, investors in all other businesses can use losses to cut their tax liability on unrelated gains. Why shouldn't they?

Good question. The answer is that no other business has been as blessed by tax policy as real estate. In the 1980s developers got addicted to both tax breaks and the flood of money pumped through federally insured banks and thrifts. In 1986 alone, developers got \$33 billion in tax subsidies, according to some estimates. The federal treasury was one grand piñata. Real estate pros just whacked it with a stick, and money fell out.

TAXPAYER REWARD. For all that, there is no sign that the real estate boom did the economy much long-term good. The capital poured into tax-favored buildings, all right. But were we better off than if it had financed manufacturing investment or research? Surely, we've learned by now how flimsy an economy is when it's built on vacant homes and see-through office buildings.

In 1986, Congress pricked the bubble by sharply curtailing the ability of real estate investors to use losses to shelter other income. The developers are right when they say that today things are different—that plenty of deals really are under water. But why should the

government subsidize the cost of bad business decisions?

Take a close look at what the provision—sponsored by House Ways & Means Committee Member Michael A. Andrews (D-Tex.)—would do: Developers who bring investors into bad projects would get a taxpayer reward for their efforts. Some might be able to wipe out their entire tax liability. Bu

outside investor wouldn't be so lucky. A dentist or a corporate executive who owns a share of a commercial project must play by the old rules.

ACID TEST. Leaving aside the question of fairness, there's also no evidence that this tax break will do anything for the overall economy—the acid test of any fiscal policy. It may boost real estate asset values a bit, and it may keep a few developers from turning over the keys to already troubled banks. Bu

even the strongest proponents of the legislation acknowledge that it won't spur much job-producing construction. One reason: The House proposal offsets the new tax break by stretching the depreciation of new commercial buildings from 31.5 years to 40, giving owners smaller deductions. "At the margin, it will be helpful," says Steve A. Wechsler, president of the National Realty Committee. "It's not going to make a huge difference."

The federal deficit will top \$350 billion this year. Over the past four years, the government has spent nearly \$200 billion in taxpayer money to shut down banks and thrifts, many of which choked to death on overvalued real estate. A hefty majority of the House is on record in favor of a constitutional amendment requiring a balanced budget. Knowing all that, why on earth would Congress want to spend \$2.5 billion over the next five years to bail out developers?

It's now obvious how flimsy an economy is when it's built on a foundation of vacant homes and offices



BIG STINK IN THE FARM

The issue: ethanol subsidies. The players: agribusiness and Big Oil

As a wave of political discontent swept the country this spring, American farmers were relatively quiet. That changed on July 6, when more than 2,000 farmers showed up in Peoria, Ill., to wave placards and appeal politicians' platitudes. Their rallying point? Ethanol, a heavily subsidized additive made from corn, that's become a political hot potato.

The farmers are demanding that Washington continue its support for the effort, despite claims that ethanol, contrary to its clean-air image, has a pollution problem. "We've got to keep fighting," says Patrick E. Hennenfent, a Peoria County (Ill.) farmer who sells more than half of his 600-acre corn crop to ethanol maker Pekin Energy Co. "We're not backing down."

Neither are ethanol's critics. A long-bedfellows alliance between the industry and environmental groups is mounting scientific studies that document ethanol's harmful impact on the environment. While they concede that ethanol-blended gas reduces carbon monoxide emissions, the anti-ethanol lobbyists claim that the benefit is outweighed by another factor. In fact, the studies show that ethanol-blended gasoline actually creates more smog than pure gasoline. When burned, it emits more nitrous oxide. And on warm days, it evaporates more readily, adding to the pollution problem.

N VS. OIL. The research has won Washington's attention. In March, the Environmental Protection Agency proposed Clean Air Act rules, set to take effect in 1995, that ethanol proponents would keep ethanol-blended gasoline from being sold in the nine cities with the worst air quality.

The industry is battling its critics on their front, too. Under the current tax law, gasoline must be blended with 10% ethanol to receive a 5.4¢-a-gallon federal tax subsidy. A farmer says it needs to compete with gasoline. The additive can't clean-air standards unless it's mixed in far smaller doses. An amendment to the pending Senate energy bill would extend the



Ethanol's Good for the Economy and Environment



FUEL AID: SENATOR DOLE PLEDGES HIS SUPPORT FOR ETHANOL

tax credit to lower blends. That amendment is vigorously opposed by the anti-ethanol lobby.

The outcome of the fight, led on the ethanol side by grain giant Archer-Daniels-Midland Co., could determine the future of the ethanol industry—which is no petty business. Some 1.1 billion gallons of ethanol will be produced this year (chart). The additive has become so popular, in fact, that General Motors Corp. and other auto makers have built 50 test cars that can burn up to 85% ethanol. More important, as far as farmers are concerned, ethanol adds 20¢ to the value of every bushel of corn grown in the U.S., according to U.S. Agriculture Dept. data. "This is the Midwest vs. the Middle East," says Dwayne O. Andreas, ADM's feisty chairman. "It's corn farmers vs. the oil companies."

It's not quite as big a mismatch as all that. At the Peoria rally, Senate Minority Leader Bob Dole (R-Kan.) pledged his support for ethanol. And Representative Robert H. Michel (R-Ill.), the top House Republican, read a telegram from President Bush that said ethanol "must become a major player in the fuel market." Then there are the political contributions of more

than \$1 million that ADM has spread around Washington since 1988, in part to promote ethanol. This spring alone, it channeled some \$400,000 to congressional candidates and others, according to a study by Common Cause, a liberal lobby.

UPPER HAND. Still, for the moment, the oil companies and their environmentalist partners appear to have the upper hand. Their tactic: to persuade independent refiners, who mix ethanol with gasoline at their plants, to switch to alternatives before Congress can rework the tax laws so that low-ethanol blended gas qualifies for the tax breaks. The oil companies even have a ready substitute: A natural-gas by-product called methanol, which most of them just happen to produce.

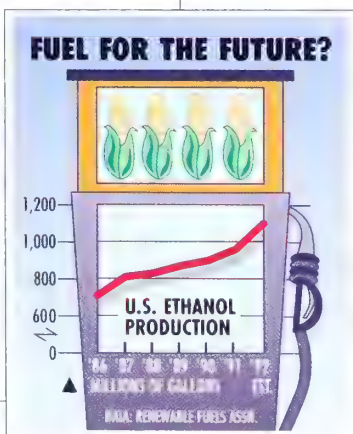
Big Oil is targeting such businesses as Getty Petroleum Corp. in Jericho, N.Y. Getty currently

mixes ethanol into nearly 3 million gallons of gasoline a day. If it is forced to switch, the company will have to buy methanol from competitors, since it doesn't produce the additive itself. "The refineries could block us out," worries Alvin A. Smith, Getty's senior vice-president for operations. If ethanol's future isn't decided by Sept. 15, Smith will be forced to make the switch. "That's my drop-dead date," Smith says.

Enter the farmers who rallied in Peoria, along with the thousands more who intend to join other rallies planned for this summer. The farmers' goal: to pressure Congress for the tax code change, and the EPA for changes to the Clean Air Act. To those in Peoria, the rally had a telling backdrop. ADM's Peoria plant is the largest ethanol producer in the world, employing more than 150 people and consuming 90 million bushels of corn each year. But a few days after the EPA's March ruling, ADM pointedly scratched plans to spend more than \$120 million to expand the Peoria plant and two others.

Andreas bristles at the suggestion that the move was made for political effect. "We run our business as a business," he says. "We're not running a vaudeville act." But in this election-year fight over ethanol's future, it may be showmanship as much as science that wins the day.

By David Greising in Chicago, with Peter Hong in Washington



CRITICS ARE GANGING UP ON MERCK'S NEW WONDER DRUG

Safety and effectiveness concerns blunt enthusiasm for its prostate pill

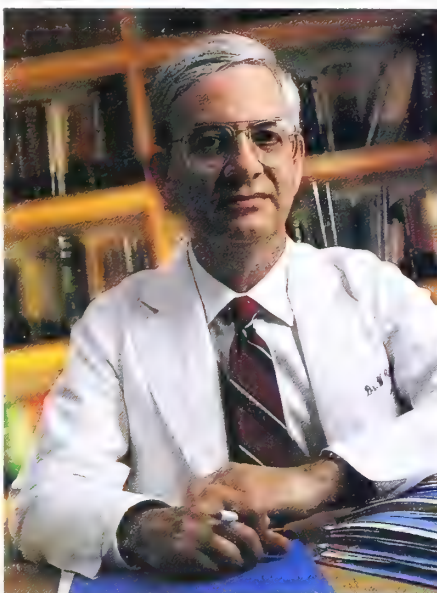
As recently as April, at Merck & Co.'s annual meeting, Chairman Dr. P. Roy Vagelos confidently predicted that Proscar, the company's new prostate drug, would be a \$1 billion-a-year blockbuster.

Good thing Vagelos didn't say when Merck may have to wait for its big payoff until it overcomes worries about Proscar's safety and effectiveness. Although Merck says it has dealt with the safety concerns and Wall Street generally remains bullish on the drug, a few analysts now predict that Proscar may not generate sales of \$1 billion a year until 1997—or later.

DRAWBACKS. Even before the Food & Drug Administration approved Proscar on June 19, many urologists had their doubts. Fewer than one-third of the men who used it during clinical tests reported a significant easing of urinary discomfort from prostate enlargement. "There is a lot of skepticism because this drug is not as powerful as it was thought it might be," says Dr. Peter T. Scardino, chairman of urology at Houston's Baylor College of Medicine. Still, given that 10 million older men may have enlarged prostates and the drug will sell to druggists for \$511 a year, Proscar's potential seems huge.

But other drawbacks may limit the drug's acceptance. It's impossible to predict who will benefit from it, so patients must try it for six months to see if it works. And those it helps must take it daily for life. So, many men may continue to opt simply to live with mild prostate conditions. And many of those with more severe problems may still choose surgery. "What the drug therapy offers at best is a marked delay in surgery," says Dr. E. James Seidmon, associate professor of urology at Philadelphia's Temple University Hospital.

The other big worries about Proscar are cancer-related. Its harshest critic may be Dr. William J. Catalona, head of urologic surgery at Washington University Medical Center in St. Louis, who was one of Merck's consultants on the drug. He argues that the FDA shouldn't have approved Proscar without further testing its



CATALONA: ONCE A MERCK CONSULTANT, HE NOW ARGUES FOR MORE PROSCAR TESTING

long-term effect on prostate-specific antigen, or PSA, in the blood. PSA testing increasingly is used by doctors to look for early signs of prostate cancer, which kills some 34,000 U.S. men a year. Catalona, who has seen Merck's confidential data on Proscar, argues that the drug could make PSA testing ineffective. He complained to the FDA in February that "this most important safety issue has not been adequately addressed."

Merck and the FDA consider the PSA problem to be manageable. For one thing, the FDA hasn't approved PSA testing, while it recommends rectal exams and other techniques. All the same, Merck is warning doctors of the PSA concerns and suggesting that they perform

regular rectal exams on patients taking Proscar. That precaution, Merck says, may actually increase the rate of cancer detection. And says Dr. Elizabeth Storer, Merck's executive director of clinical research: "We will obviously in our long-term control studies continue to evaluate this very carefully."

Another concern is whether—and how—Proscar will affect non-life-threatening prostate cancer that is common in older men. Some cancer specialists worry that Proscar may accelerate the growth of some tumors. "If you give this drug to patients who might have cancer in their prostates, albeit unknown, what will happen to the cancer?" frets Dr. Paul H. Lange, chairman of urology at the University of Washington School of Medicine in Seattle, site of some Proscar testing. "Will it do better or worse? That's unknown."

PRICED DOWN. Merck says tests so far show that Proscar is safe. Indeed, there are some signs, says Merck research chief Dr. Edward M. Scolnick, that the drug may actually help block some early cancer growth. The company plans a study with the National Cancer Institute to see if that is the case.

In the meantime, Merck is pricing Proscar to sell. The price to druggists, set on June 22—\$1.40 a pill, or \$511 for a year's worth—is well below the \$730 annual charge analysts expected. Patients also will get a free two-month dose in their first year, plus one free month per year until 1995.

Some analysts doubt discount pricing will help Proscar much. Industry follower Hemant K. Shah figures the drug won't hit \$1 billion in annual sales until perhaps 1998, four years later than once thought. Patricia P. Lea of Vector Securities International Inc. sees more than \$500 million in yearly sales in 1997. "I do not think it is a particularly good drug," she says. Such doubts are one reason that Merck stock has tumbled recently: Its shares are flirting with 50, down from a high of nearly 57 in January.

Not everyone is so downbeat. Dr. Patrick C. Walsh, director of the Brady Urological Institute at Johns Hopkins Hospital in Baltimore notes that the drug "has a lot of pros. Many men have urinary symptoms severe enough to undergo surgery, and up to now there's been no alternative. True, but this wonder drug still has to prove its promise in the market."

By Joseph Weber in Philadelphia, with John Carey in Washington

PROSCAR: THE PROS AND CONS

FOR

- ▶ The only approved alternative to prostate surgery
- ▶ Eases urinary discomfort in some older men
- ▶ Sometimes modestly shrinks swollen prostates

AGAINST

- ▶ May interfere with detection of prostate cancer
- ▶ Effective for only 31% of users
- ▶ No positive effects for six months—if ever

DATA BW



PROCESSING CLAIMS: THE "INSURER OF LAST RESORT" CAN'T ALWAYS RAISE RATES

A BLACK EYE FOR THE BLUES?

The Senate is probing bruising allegations against the health care giants

For much of America, Blue Cross/Blue Shield is synonymous with health care. For one thing, the blues cover 38% of all Americans who have health insurance. As nonprofits, they cultivate an image of social responsibility to set themselves apart from for-profit commercial carriers. And in 11 states, Blue Cross is the "insurer of last resort"—an extraordinary quasi-public provider of coverage to anyone who needs it, regardless of health risk. But a worrisome number of America's Blue plans may no longer be pillars of national health care. That has led the Senate's permanent subcommittee on investigations to launch a sweeping examination of the network. The high-profile panel is chaired by Sam Nunn (D-Ga.), who says he is worried about the "intensity of potential misconduct and mismanagement may play on increased health care costs." To assess the problem, his committee will examine everything from the Blues' financial health to administrators' salaries.

AK SHOWINGS. The first whiff of trouble came in October, 1990, with the first-ever Blues bankruptcy, in West Virginia. None of the plans is as troubled as that, analysts say, but a number may be on shaky financial ground. Last month, Weiss Research Inc., an insurance-rating agency based in West Palm Beach, Fla., found that 16 of the 57 Blues plans it rated are "weak" or "very weak"—including Massachusetts and several plans in New York, which are among the nation's largest. The firm based its ratings on, among other things, an operation's

surplus or deficit over the past five years and on the capital it has to absorb potential deficits.

Blue Cross & Blue Shield Assn., which licenses the independent entities that make up the network, concedes some plans have problems. Bernard R. Tresnowski, president of the Blues' association, says that the finances of 15 plans are being monitored. But, he adds, some of the Blues' overarching problems are due to regulatory shortfalls and soaring health care costs. "I hope that as the hearings go on, they will be able to see that Blue Cross/Blue Shield is oftentimes the whipping boy in a political environment," he says.

These days, virtually all the Blues operate with a surplus—an improvement from 1990, when six plans were in the red. But Weiss Research President Martin D. Weiss believes that the Blues may be facing another downturn. "Many are already very low in capital and surplus," he says.

The role Blue Cross plays in many states as the insurer for all comers is partly to blame for its woes. For years, commercial carriers have skimmed the healthiest—and cheapest—patients, leav-

A number of state plans may be on shaky ground, though analysts say none is close to bankruptcy

ing the nonprofits with the high risks. But because the Blues are regulated like public utilities, they can't simply raise rates to compensate for rising costs.

In New Jersey, public outcry prompted the state Insurance Dept. in March to reject Blue Cross's request to raise rates on 240,000 individual policies by 9.9%. It also turned down the plan's request to consolidate the variety of individual policies it sold, which would have forced many subscribers to buy plans costing 150% more. Blue Cross sued state regulators, claiming the smaller rate hike would force it to violate a state law requiring it to close a deficit in its individual policies by 1996. "The department realizes we have a deficit, but felt it was more important to keep our premiums low," says New Jersey Blue Cross spokesman Fred Hillman.

In other states, regulators are questioning whether management policies have contributed to the Blues' financial woes. Last year, downstate New York's Empire Blue Cross Blue Shield asked regulators for a 50% rate increase, even while it was paying its chairman, Albert A. Cardone, \$600,000 in compensation. Empire spokesman Michael Blumenfeld says that compared to other health insurers in New York, Empire ranks fifth in customers, but 13th in CEO compensation. "This company has to keep up with the giants and to serve as an insurer of last resort," he says. "That's not an easy job for a CEO."

GAME PLAN. In Maryland, the insurance commissioner, John A. Donaho, told Nunn's subcommittee that the state's plan had paid \$75,000 for a skybox at Baltimore Orioles games and donated \$575,000 last year to charities when the plan was, he says, "barely solvent." He also questioned the propriety of an arbitrage unit the plan set up and payment of fees to a board director's law firm.

Carl J. Sardegna, chief of Maryland Blue Cross & Blue Shield, says the plan has been in surplus for three years and that the company spends a portion of that on charitable services. He also says that the for-profit subsidiary that Donaho criticized is a no-risk preferred stock offering that has generated substantial profits. The skybox, he says, is used to entertain large customers, which helps the company compete with commercial competitors. "I don't understand [Donaho's] motivations at all," he says.

The outcome of Nunn's investigation could be more state oversight for the Blues. They would rather see legislative changes similar to New York State's July 1 law, which requires all insurers—not just the Blues—to provide coverage and similar rates to all who apply. That's a good first step but probably not more than a Band-Aid.

By Susan B. Garland in Washington

In Business This Week

EDITED BY HARRIS COLLINGWOOD

AMERICA'S TEAM?

It used to be that when baseball's All-Star break came around, the New York Yankees would be cruising toward another pennant and locking in their status as both the most and least liked ballclub. No more. The Bronx Bombers haven't won much lately, and the new fan favorite, says a recent Harris Poll, is the Atlanta Braves. But take heart, Yankee fans. Your boys are still the least liked

FAVORITE TEAM

ATLANTA BRAVES
NEW YORK YANKEES
LOS ANGELES DODGERS
NEW YORK METS
CHICAGO CUBS

LEAST FAVORITE TEAM

NEW YORK YANKEES
LOS ANGELES DODGERS
NEW YORK METS
OAKLAND ATHLETICS
BOSTON RED SOX

DATA: THE HARRIS POLL

UNITED FLIES RIGHT PAST BOEING

► Boeing suffered a major defeat on July 8 when its largest and most loyal customer, United Airlines, ordered 50 narrow-body A320s from Airbus Industrie and took options for an additional 50 aircraft. The deal is valued at roughly \$3 billion. United is under pressure to cut capital commitments, and industry sources say Airbus gave it a sweet deal, allowing it to lease the aircraft instead of purchasing them outright. Boeing, which said it was "very disappointed," earlier this year annoyed United by refusing its request to defer deliveries of the new 777 jet.

WHY DID BRANIFF BOW OUT THIS TIME?

► Braniff International Airlines abruptly shut down on July 2, the third time an airline by that name has gone

kaput. Braniff III had been operating under Chapter 11 since August, 1991. Jeffrey Chodorow, co-owner of the airline, blames fare wars for the shutdown.

Behind the scenes: Braniff owed hefty federal excise taxes, and the Transportation Dept. threatened to ground it for poor service. Neal Meehan, ex-president of now defunct Midway Airlines was brought in as CEO June 22 but couldn't salvage the carrier.

FDA WARNINGS ON SELDANE'S SIDE EFFECTS

► Bad side effects from Seldane, the hot prescription allergy drug, are causing big headaches for maker Marion Merrell Dow. On July 7, the U.S. Food & Drug Administration ordered Marion to warn doctors of possible dangerous heart arrhythmia when Seldane is taken at the same time as two other medications. Patients with liver disease also are at risk.

The safety questions are likely to scuttle the company's plan to sell the antihistamine over the counter in the U.S. And analysts expect sales growth to stall. According to some estimates, the FDA's order and the resultant bad publicity will cost Marion about \$65 million in Seldane sales this year and reduce overall company profits by about \$14 million, to \$677 million.

HIP HIP HOORAY! LET'S HEAR IT FOR PAY!

College football fans already know that the beefy student athletes charging up and down the gridiron on Saturday afternoons are mostly scholarship recipients. But were you aware that many of those almost insufferably bouncy students waving pom-poms on the sidelines also get a subsidy?

Yes, that's right: cheerleading scholarships. According to *The Ultimate College Shopper's Guide*, due out in September from Addison-Wesley, over 50 colleges nationwide offer them. Southern schools seem to take their cheerleading most seriously. Of 54 schools waving scholarships at cheerleaders, 31 are in the South. The University of North Alabama picks up the entire tuition tab for the two captains of its squad.

Many prominent citizens once shook a pom-pom or two. As a high school student, disgraced junk-bond kingpin Michael Milken was a cheerleader. And some say he never really stopped



The Seldane woes compound Marion's long-term problems: Cardizem, its \$1 billion blood-pressure drug, will soon face generic competition, and there's little in the pipeline to take its place.

AMOCO SWINGS A BIG AX

► Even for a huge energy company, \$800 million is a big number. That's how much Amoco says it will take as an after-tax write-off in the second quarter. The charge covers \$250 million for disposing of some oil and gas production properties and \$220 mil-

lion more for ditching some chemical operations. The \$3 billion Chicago oil company also plans to cut its workforce by about 15%, or 8,500 workers, by the end of 1992. Lower oil and natural gas prices, which have crimped earnings and cash flow, triggered the overhaul. Amoco says the cuts will save it \$60 million a year.

THE RUSSIANS OFFER DEBT SWAPS

► Russian President Boris Yeltsin dangled a tantalizing prospect before Western investors at the Munich economic summit (page 28): Russia would be willing to entertain debt-for-equity swaps for its \$20 billion bank debt. In a closed session with President Bush and other Group of Seven leaders, Yeltsin rattled off a long list of assets that investors could acquire by assuming part of Russia's debt—including a stake in its vast oil and gas reserves. U.S. officials described the offer as "very significant." Not only would the swaps help Western banks but they would bring in foreign investment and strengthen Russia's move toward property rights.



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1991 RESULTS AND ACTIVITIES

Consolidated results for the Framatome Group in 1991 were comparable to those achieved in 1990. While revenue rose to 14.2 billion French francs (FFr), up from 13.6 billion the previous year, the Group share of net income was nearly unchanged at FFr 986 million, versus FFr 984 million in 1990.

The key events of the past year reflect continued confidence in the Framatome Group. Employee confidence first, shown by full subscription of 200,000 reserved new shares, issued in December 1990, thus increasing employee ownership from 3 to 5%. International investors also showed their confidence in Framatome, by making the November 1991 issue of \$250 million worth of Perpetual Floating Rate Notes a resounding success.

Nuclear steam supply system business highlights in 1991 were the delivery of two more 1300 MWe class PWR units, Cattenom 3 & 4, and the confirmation from EDF of the order for Civaux 1, a 1450 MWe class PWR. Work continued on Penly 2, Golfech 2, and Chooz B1 and B2 in France, as well as Guangdong 1 and 2 in the People's Republic of China, where the Framatome/Spie-Batignolles consortium assumed overall construction responsibility for the nuclear islands. In addition, Nuclear Power International (NPI), the equally owned Framatome and Siemens/KWU joint subsidiary, moved ahead on the development of a common product, while continuing a fruitful dialog with French and German utilities.

Framatome-Siemens cooperation was also strengthened in 1991 on the occasion of the privatization of the energy sector of Skoda, in the Czech and Slovak Federal Republic. The two firms will hold respective stakes of 10 and 57% in the capital of the new Skoda-Energo entity being created.

Nuclear services business was steady, both in France and abroad, where the major event was Framatome's acquisition of a further 25% interest in the capital of BWNS in the USA, raising its stake to a controlling 75%. This change was sealed by an agreement with McDermott International, signed on 4 December 1991.

Business was on the upswing in the **nuclear fuel sector**, due to increased demand. Paralleling the increase of Framatome's shareholding in BWNS, a second agreement signed on 4 December 1991 allowed the company and its French partners (Cogema and Pechiney) to increase their ownership of BWFC to 75%.

In the **connector segment**, Framatome Connectors International (FCI) faced an adverse business environment not only in the United States and Europe, but also in Japan. Conditions were better on some markets, such as telecommunications or automobiles; in the latter, FCI took control of a German connector firm, Schmid.

Mechanical engineering activities were also affected by the global economic slowdown, notably in early 1991 and particularly in defense-related fields. Nevertheless, the levels of their order books at the end of 1990 enabled certain divisions or subsidiaries to do relatively well in 1991, notably Thermodyn, in the compressor field, and NFM, which recorded its first two orders for tunneling machines early in the year.

In **industrial information technology**, most Framatome businesses suffered the effects of a difficult economic situation in a slack and relatively narrow market.

Jean-Claude Leny
Chairman and Chief Executive Officer

CONSOLIDATED RESULTS

(15 May 1992)

CONSOLIDATED GROUP REVENUE	1991	1990
Total, excluding taxes (FFr millions)	14 174	13 571
Origin: - Nuclear power businesses, including: - PWR NSSSs and nuclear islands	9 312	8 602
- Fuel and services	5 136	4 916
- Connector businesses	3 127	3 407
- Mechanical and diversified engineering	1 735	1 562

GROUP NET INCOME AND DISTRIBUTION	1991	1990
Group share of net income (FFr millions)	986	984
Percentage of revenue	7.0%	7.2%
Number of shares outstanding (millions)	10.2	10.0
Net income per share (FFr)	96.7	98.4
Dividend per share (FFr)	39.20	44.00



FRAMATOME GROUP

QUAYLE'S CRUSADE S WINNING VOTES—FOR PEROT

Michael D. Dingman is the sort of Republican you'd expect to be firmly behind President Bush. The chairman of Henley Group Inc. in Hampton, N.H., a medical equipment and aerospace holding company, is a big fan of Vice-President Dan Quayle's war on bureaucracy. "We have too much government and too much burdensome regulation," he says.

But Quayle's exertions at the President's Competitiveness Council have just whetted Dingman's appetite for an assault on Big Government. And that's why Dingman wants Ross for Boss. Perot's willingness to challenge conventional thinking is the gift of a leader," he declares. "This Administration is too weak. Let's give Perot a chance to go to Washington and clean the place out."

NOT BASHFUL. Such are the strange side effects of Quayle's assault on environmental, health, and safety regulations. The Veep has sparked a furor in Washington, enraging democrats and environmentalists. But instead of galvanizing a core GOP constituency for Bush, Quayle's campaign seems to be making many executives believe that change in Washington is possible—and that shock treatment spelled P-e-r-o-t may be what the capital needs. "We have government gridlock so bad we can't govern ourselves anymore," says another Perot backer, Greensboro (N.C.) textile executive G. Allen Mebane. "Somebody has to get things done."

John Motley understands the problem. The vice-president of the National Federation of Independent Business says "we haven't been bashful" in seeking Competitiveness Council help for its small-business members. The NFIB has won a proposal to streamline rules governing deposits of payroll taxes and deepened a Labor Dept. regulation holding employers responsible for employees wearing seat belts while traveling on the job. And the group was thrilled when Quayle's council overruled

the Environmental Protection Agency, allowing businesses to increase pollution without seeking public comment.

Motley is a die-hard Bush backer. His troops are another matter. They're split between Perot and Bush—and the Perot backers are the sort of loyalists who will likely stick with the insurgent candidate even if some of his more volatile support evaporates. Explains one NFIB member: "Our people are traditionally for anybody who lashes out at government. Bush looks like a pale imitation of Quayle, and Quayle looks like a pale imitation of Perot."

Such thinking is bad news for the council, which is already in trouble on Capitol Hill. The House, angry that the Quayle operation has given business groups a backdoor entry to the regulatory process, has voted to cut off its funding. "We've got to stop this," says Senate Governmental Affairs Committee Chairman John Glenn (D-Ohio). "The public has a right to know what the council is doing with regulations that affect tens of millions of people."

Perot's business support comes mainly from smaller companies, which favor slash-and-burn tactics in Washington. Most corporate leaders are sticking with Bush, albeit

without much fervor. "Perot's appeal to business is his aggressiveness," says Jerry Jasinowski, president of the National Association of Manufacturers. "I think the business community wants to vote for Bush, but only if he presents a more forceful pro-growth agenda in the campaign."

Quayle realizes that his crusade has helped create divisions in business ranks. "They are frustrated, and Perot is tapping into their frustration," says Quayle spokesman Jeffrey Nesbit. Bush and Quayle hope the council's actions will convince executives that the Administration is part of the solution. But rather than stimulating gratitude, the antiregulation assault may have just left this key constituency hungry for more.

By Douglas Harbrecht and Peter Hong in Washington



THE VEEP HAS SPARKED A FUROR

CAPITAL WRAPUP

THE PRESIDENCY

Truth in a campaign lies in the eye of the beholder. For months, Bush and his GOP allies on Capitol Hill have flayed democrats for refusing to give the President the power to veto individual items in appropriations bills. But a new Senate Republican Policy Committee analysis of Democrat Bill Clinton's budget proposals dismisses half of the savings as "gimmicks." Among them: the early \$10 billion Clinton hopes to save over four years by exercising a line-item veto. Meanwhile, while continuing to eschew tax hikes, the President has just signed one. The new extension of unemployment benefits is funded in part

by renewal of an expiring provision that reduces the value of personal exemptions for taxpayers earning more than \$100,000.

THE SENATE

Desertions by black, Jewish, and pro-choice voters are hurting the reelection chances of Senator Arlen Specter (R-Pa.). A Millersville University/Penn State poll shows Democrat Lynn Yeakel ahead 43%-37%. Despite Specter's strong pro-choice record, Yeakel leads 52%-28% among voters who think the Supreme Court went too far in restricting abortion. Specter also alienated women voters during Clarence Thomas' confirmation hearings.

REGULATORS

Securities & Exchange Commission Chairman Richard C. Breeden seems to have abandoned hope for a more prominent job in a second Bush Administration. Associates say Breeden, a securities lawyer and former White House aide, is seeking a private-sector job. As Breeden tried to expand the SEC's jurisdiction, he frequently clashed with other Administration officials—including Treasury Secretary Nicholas Brady. Meanwhile, James M. Reum, a securities partner in the Chicago law firm of Hopkins & Sutter, has emerged as the leading candidate for a vacant seat on the SEC.

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THE GREAT EUROPEAN SELL-OFF, PART TWO

Governments are privatizing companies again—more out of economic necessity than ideology

Serge Tchuruk, the engineer who heads France's oil and gas giant Total, recently got a nice present from the French government. In late June, it sold more than \$1 billion of its Total shares, retaining only a token 5% holding. For the first time in Total's 68-year history, the company's board will not be automatically dominated by government nominees. "Now we can be substantially more flexible," says Tchuruk.

Across the Alps, a similar scenario is about to be played out. Next month, Italy's ENI, an energy and chemicals giant with \$41 billion in sales last year, will be transformed from a government entity to a joint stock company. That will pave the way for ENI to sell off pieces of itself to the public later in the year. Then, says ENI President Gabriele Cagliari, "we'll finally be able to measure ourselves against the market."

All over Western Europe, privatization

is suddenly getting a second wind. But this time it's a far cry from the ideology-based sell-offs spearheaded by an iconoclastic Margaret Thatcher 10 years ago. Now, stiff new competition rules laid down by the European Community mean that state-owned companies, once cosseted, can no longer rely on government handouts to finance growth. The Europeans also are hoping privatization can help fight off stiff new competition from the U.S. and Japan.

RICH PROCEEDS. One more spur: European governments are more money-hungry than ever. Examples include Germany, reeling under \$60 billion in direct unification costs this year, and Italy, now heading for a record \$130 billion budget deficit. Rather than deepen deficit spending to fund expensive social programs, governments are cashing in their corporate assets (table).

That's something France's Pierre Bér-

égovoy had in mind when he took over as Prime Minister in early April. His first order of business was to tackle France's formidable 10% unemployment rate. But as a firm believer in the strength of the franc, he was unwilling to borrow money for job creation. Instead, he's using proceeds from state sell-offs. With the \$1 billion Total offering, he reached more than half of his goal of raising \$3 billion from share sales this year. An additional \$450 million or so is likely to be raised from the sale of a life insurance company, Paris-based Caisse Nationale de Prévoyance, later in the year.

French privatization will pick up sharply if, as polls suggest, conservatives win big in elections to be held next March. Right-wing politicians are certain to privatize many of the 10 big industrial companies and several banks and insurance firms that remain in state hands, including such powerhouses as



GAS STOP: PARIS
WILL RETAIN JUST
5% OF TOTAL

A MENU OF STATE SELL-OFFS

BRITAIN Winds down Europe's biggest privatization program with proposals to sell off British Coal and British Rail

FRANCE Raises \$1 billion from sell-off of oil group Total to help finance job creation. Similar sales may include such major companies as Air France, Renault, Thomson, Pechiney, and Elf-Aquitaine

GERMANY Pushes to speed up sales of government stakes in more than 100 companies from Lufthansa to regional banks and airports

ITALY Targets key state companies including energy giant ENI for privatization to help reduce its chronic budget deficit

DATA: BNP

ance and steel giant Usinor Sacilor. That's a rich trove. A conservative French government, estimates Shearson Manhattan Brothers Inc., would sell about \$10 billion worth of state holdings over a five-year period. And even if the Socialists manage to squeak back in, the party now on record as backing total privatization. "The French Socialists," says Anne Jeancourt-Galignani, chairman of Banque Indosuez, "are giving up everything they have been worshipping."

Italy has dragged its feet on privatization, but its fire sale could ultimately top France's. Besides ENI, the vast state holdings include most commercial banks, and companies, chunks of heavy industry, and Italian railways. The companies have been a rich source of patronage and favors for Italian political parties while absorbing \$36 billion in annual subsidies over the past decade, a record in Europe, according to the EC.

LESS AHEAD. The new Italian government headed by Socialist Giuliano Amato needs cash as quickly as possible. Italy's budget deficit has ballooned this year to a disastrous 11% of gross domestic product. Although the sell-offs could be stalled by disputes over legality, the government might raise as much as \$10 billion next year, according to government economists. ENI, for example, is already planning to spin off about 10% of Agip, its \$8 billion oil and gas unit, in a deal put together by Goldman, Sachs & Co. and Swiss Bank Corp. The sale will raise up to \$2 billion.

The German government also controls large swaths of the economy, from Volkswagen to dozens of banks to the federal railroad system. But it, too, is feeling the pressure to move forward on privatization. With Bonn expected to run a \$28 billion deficit this year, Finance Minister Theodor Waigel, for one, wants to press ahead with the privatization of Telekom, the powerful telecommunications unit of the federal postal service. As the pioneer, Britain has cleared the way for much of its state holdings—worth \$70 billion worth in the past decade. But such leftover giants as British Telecom and British Coal will eventually go to the block.

In the meantime, the British are trying to sell their privatization knowhow to their Continental cousins. One tactic: international cruises. On a recent sunny day, such leading London experts in privatization as Coopers & Lybrand and Charles de Zoete Wedd pitched sell-offs to Italian business chieftains during a five-day cruise up the Italian coast on Queen Elizabeth II's yacht. Judging by the bets on Europe's privatization plate, British experts stand to be busy well into the decade.

John Rossant in Rome, with Stewart Ross in Paris and Igor Reichlin in Bonn

FRANCE

THEY DON'T LET JUST ANYONE BUY A DEFENSE CONTRACTOR

Now, France's Thomson is fighting to save a piece of its LTV deal

Alain Gomez, the dapper chairman of France's Thomson-CSF, lined up some of the best string-pullers money can buy to help acquire bankrupt LTV Corp.'s missile business. The defense-electronics giant, 58%-owned by the French government, joined with the Carlyle Group, a well-connected Washington investment bank whose vice-chairman is former Defense Secretary Frank C. Carlucci. For public relations, Gomez tapped Carter Administration Press Secretary Jody Powell's high-powered spin-shop, Powell Tate, as well as a legion of K Street lawyers.

But the pricey talent couldn't overcome the volatile politics of selling sensitive U.S. defense assets to foreigners,

for his \$7 billion colossus was to dovetail LTV's world-class missiles systems with Thomson's strong position in electronics. By grabbing LTV, Gomez also hoped to gain entry into the U.S. market as a prime contractor. Now, though, he will be lucky to end up with a minority interest in the company.

The trick will be winning the good graces of the Committee on Foreign Investment in the U.S. (CFIUS)—an interagency group that advises President Bush on foreign purchases of U.S. assets. Before Thomson withdrew its offer, the Treasury Dept.-led panel was leaning against the sale because of its concerns that LTV missiles might end up in the wrong hands.

A Thomson official confirmed the company is talking to Northrop Corp. about leading a new bid, with the French as minority partners. Thomson has talked with Raytheon Co. and Loral Corp. as well—and a new offer could emerge any day.

Still, that may be "wishful thinking," says Alan Batkin, LTV's financial adviser on the missile sale and vice-chairman of Kissinger Asso-



LTV ROCKET LAUNCHER: U.S. RIVALS COVET THE TECHNOLOGY, TOO

ciates. One reason is that time is short. The bankruptcy judge overseeing the sale of LTV assets has set a July 31 deadline to close the Thomson deal. Even if Thomson can pull together a new proposal, it will still face heated opposition from Martin Marietta Corp. and Lockheed Corp.—whose rival \$385 million offer lost out to the French in April. Martin Marietta Chairman Norman R. Augustine objects to Thomson's taking even a minority stake. Augustine has friends in high places: He was on Bush's short list of potential Defense Secretaries back in 1988.

HARD SELL. The flap won't help testy U.S.-French relations. And displeasure with the U.S. reaction goes beyond Paris. One European Community official warns of "serious consequences for the trans-Atlantic investment climate." Another possible casualty could be U.S. arms sales in Europe. "This will obviously send a signal," says Bertrand de Fouchier, Thomson vice-president for North America.

Thomson is now scrambling to salvage something from the deal. Gomez' dream

for opposing Thomson aren't at all high-minded. Both want LTV's missile technology. Its medium- and long-range mobile rocket launchers performed well during Operation Desert Storm. And LTV's ERINT missile-defense system is consid-

erable. One reason is that time is short. The bankruptcy judge overseeing the sale of LTV assets has set a July 31 deadline to close the Thomson deal. Even if Thomson can pull together a new proposal, it will still face heated opposition from Martin Marietta Corp. and Lockheed Corp.—whose rival \$385 million offer lost out to the French in April. Martin Marietta Chairman Norman R. Augustine objects to Thomson's taking even a minority stake. Augustine has friends in high places: He was on Bush's short list of potential Defense Secretaries back in 1988.

Marietta's—and Lockheed's—reasons for opposing Thomson aren't at all high-minded. Both want LTV's missile technology. Its medium- and long-range mobile rocket launchers performed well during Operation Desert Storm. And LTV's ERINT missile-defense system is consid-

ered by many to be more accurate and reliable than Raytheon's Patriot.

That's why Pentagon officials are so edgy about a Thomson takeover. Indeed, hard-liners in the military demanded that the company set up a "voting trust" manned by U.S. representatives to vet decisions involving missile technology. "You're talking about a company [LTV] that's 95% classified," says one Administration official. "The French have been known to borrow technology and spread it." A July 2 report that the Customs Service is investigating whether Thomson illegally diverted U.S. lasers to Iraq can only fuel those fears. Thomson says the lasers were French-made and the

sales approved by regulators in Paris.

Ironically, Thomson's association with the Carlyle Group also hurt the deal. Roughly one-third of the \$150 million Carlyle planned to put up for LTV's aircraft unit was bankrolled by state-backed Crédit Lyonnais. So the group was viewed as "a front" for the French government, says an Administration source. Such rough treatment speaks volumes about the U.S. defense industry's inevitable post-cold-war consolidation. Foreigners serious about buying their way in had better be combat-ready.

By Brian Bremner, with Seth Payne in Washington and Jonathan B. Levine in Paris

BRITAIN

NOW, THIS SHOULD GET ADIDAS ON ITS FEET

New owner Pentland Group will spend big to put it back in the game

Adidas is on a roll. Slashing across court in the German sporting goods company's three-stripe tennis shoes and clothing, Steffi Graf won the Wimbledon women's singles title on July 4. Three days later, Adidas was bought out by Britain's Pentland Group—and the doubles combination promises to give U.S. rivals Nike Inc. and Reebok International Ltd. a run for No. 1. "This is a sport," enthuses Pentland Chairman R. Stephen Rubin, whose family controls 54% of Pentland. "We're going to have fun."

Rubin is paying \$411 million for the 80% of Adidas that Pentland doesn't already own. And it will take tens of millions more to reinvestigate one of the world's best-known but faded brand names. A key part of Rubin's plan to compete with free-spending Nike and Reebok is to open the taps of the \$2.8 billion Adidas to up-grade products, improve distribution, and sign up more big-name endorsers.

WINNING QUALITIES. Adidas' biggest challenge will be in the U.S., where its market share is just 3% vs. Nike's 29% and Reebok's 23%. Adidas missed most of the 1980s boom in aerobics, basketball, and leisure wear and developed a reputation for tardy deliveries among some retailers. Its new Equipment line



GRAF WON WIMBLEDON IN ADIDAS GEAR

of performance shoes is designed to make up some of the ground it lost to Nike's Air and Reebok's Pump lines. "Adidas has simply fallen off the table," says Rob Strasser, a former Nike executive who now heads an Adidas consultancy, Sports Inc. Rubin hopes to lean heavily on another Adidas adviser, former Olympics chief Peter Ueberroth, to boost the brand's profile.

If Rubin's past is any guide, the com-

petition could get fierce. The bow-tie former lawyer has already chalked up some shrewd investments. He turned 1981 investment of \$77,500 in then little-known Reebok into an incredible \$77 million windfall by the time he sold out last year. He used some pocket change from that deal to buy up the Pony footwear and the Speedo bathing suit brands, which he has begun to revitalize with new products and marketing.

Pentland picked up control of Adidas from the embattled French businessman-turned-politician Bernard Tapie. Facing financial collapse and a suit for alleged fraud, Tapie bailed out of Adidas, which he bought two years ago from the heirs of founder Adi Dassler. With Tapie's future clouded, Adidas has been racked by morale problems. Rubin wants Adidas Chairman René C. Jäger, who threatened to resign, to stay on.

Rubin brings to Adidas a special expertise he developed at Reebok: outsourcing in low-cost Asia. "Pentland is the best in the business at finding quality sourcing at the best prices, which is fundamental in this business," says Michael Birkin, chief executive of consultant Interbrand Corp.

MAKING A SPLASH. It will take more than a price edge, however, to compete fiercely in Europe, where Adidas is strongest. In Germany, its single largest market, Adidas' market share has plummeted 10 percentage points, to 40%, just two years. Gernot Schilling, a buyer at giant German retailer Kaufhof Holding Aktiengesellschaft, says that Adidas simply missed the wave of image-conscious shoes and apparel. "They didn't realize that athletes were no longer the primary market," he says.

Now, Nike and Reebok are flooding Europe's airwaves with splashy ads and spending big on the Barcelona Olympics to introduce to a new audience stars ranging from basketball giant Michael Jordan to Kenya's distance runner. They are beginning to chip away at Adidas' stranglehold on endorsements from athletes in East Europe and the former Soviet Union. "We are committed to being the major player in Europe," insists Peter McGuigan, managing director of international operations of Reebok.

The 54-year-old Rubin, a swimming enthusiast, clearly relishes the challenge. He says he has no intention of pushing Adidas into the volatile fashion end of the business. And he would like nothing more than to strike a blow at the boys, especially Reebok, with whom relations ended frostily. For someone whose family began as a small shoe wholesaler, Rubin is now solidly in the big leagues.

By Richard A. Melcher in London, with Ann Hollifield in Bonn

JAPAN'S CREDIT CRISIS: INACTION MAY BE THE RIGHT ACTION

A recurring nightmare is keeping global bankers and traders tossing and turning: Japan's credit crisis intensifies as bad loans keep mounting. Bankruptcies spiral ever higher. The stock market goes into a new tailspin. And bankers slam the brakes on new lending, dashing hopes for an economic recovery.

Some argue that this scenario should spur strong action by bureaucrats who have so brilliantly managed Japan's economy in the past. But even with the Nikkei stock average down 60% since 1990 and real estate prices falling for the first time in 17 years, the apparatchiks are letting nature take its course. "Unlike in past crises, there is no strategy," says Michiya Matsukawa, chairman of Nikko Securities Co.'s research center and a former Ministry of Finance aide.

That apparent inaction could be by design—and that may be for the best. Letting the painful financial reckoning play out, bureaucrats reckon, is still the most efficient way to purge Japan of the last vestiges of the speculative 1980s and to produce a tauter financial system and more streamlined industrial machine.

POOR JUDGMENT. There's also a tinge of vengefulness here. During the 1980s, sloppy controls and the rush for fast-money business led many lenders into scandals and an estimated \$160 billion in bad loans. Banks also irritated regulators by setting up subsidiaries beyond the reach of the Finance Ministry to get around limits on real estate loans. Major stockbrokers further rankled bureaucrats by devising schemes to compensate favored clients secretly for trading losses. These actions have all tarnished Japan's reputation as a financial center. Now, "financial institutions must reap what they sowed," says Eisuke Sakakibara, deputy director-general of the ministry's International Finance Bureau.

To be sure, bureaucrats must accept some of the blame for these excesses.

But they no longer have the degree of control over financial markets they once boasted. The understaffed bureaus of the Finance Ministry and the Bank of Japan have been hard-pressed to monitor the country's rapid financial expansion. And the regulators' influence over the stock market isn't what it used to be. For one thing, Finance and the brokers are still estranged following the loss-compensation scandal.

Bureaucrats are hoping that Japan's stock market will turn around of its own accord as the economy recovers. That would help Japanese banks, al-

stead of meting out emergency loans, the bureaucrats would prefer to spread out losses among many banks.

In the meantime, they are laying the groundwork for the most widespread deregulation of Japanese finance since 1965. The Diet recently passed financial-reform legislation based on the recommendations of two blue-ribbon Finance commissions. The new laws take effect in 1993 and will let banks go into the securities business and securities firms set up banks. With trading commissions already collapsing, more than a dozen of Japan's 217 brokers are ex-

pected to go out of business. Even giant Nomura Securities Co. plans to cut its staff by 16%.

Similar restructuring is coming for banks, which long have been kept in well-defined niches. Regulators hope that Industrial Bank of Japan Ltd., one of several banks that specialize in long-term corporate lending, will now evolve into a global merchant bank much like J.P. Morgan & Co. "We're going to lead our financial-services firms in the direction of London and New York,"

says Osaka University economist Shochi Royama, chairman of one of the reform councils.

For decades, Japanese financial institutions have been among the world's luckiest. Amid stunning economic growth and protection by bureaucrats, they grew to mammoth size. Now the global economy is cooling, finance is becoming deregulated, and the Tokyo stock market plunge is eating off their last source of cheap capital for expansion. In this new environment, the bureaucrats argue, only the fittest should survive. "There's a feeling that this is a necessary adjustment," says Finance's Sakakibara. "We think the Japanese economy has diabetes. That could require several years of strict diet." For the moment, a diet looks more realistic than surgery. The world would be making a mistake to think the disease is terminal.



DAIWA SECURITIES TRAINEES: OPPORTUNITIES WILL BE FEWER

though it could still take up to five years for them to work off their bad loans. Despite talk of financial meltdown, the bureaucrats insist that most banks and the economy are still fundamentally sound. "We did not think that bursting the bubble would have such an impact [on the stock market]," says Kengo Inoue, the Bank of Japan's deputy research director. "But the Japanese system is alive and kicking. In the unlikely case that things get out of hand, there are means at our disposal to make an extraordinary loan." In-

As cheap capital dries up, survival of the fittest will rule—which some see as a necessary adjustment

YELTSIN DISCOVERS THE TRICKY SIDE TO DEMOCRACY: COMPROMISE

A running joke at the Group of Seven leading industrial nations in Munich has it that Boris Yeltsin is the only leader in attendance still popular with his electorate. But when the Russian President returns home, he'll face a growing challenge: stronger and better organized political parties. After coming into existence two years ago, the parties are finally carving out clear policy positions. As a result, Yeltsin's balancing act will become far tougher.

Two clear factions are emerging. The first is the hard opposition, made up of at least four groups bent on overthrowing Yeltsin, legally or not. Each has its own version of a generally procommunist, Russian nationalist, or anti-Western line. Led by such figures as former KGB Major General Alexander Sterligov, they condemn Yeltsin for abetting Western economists and failing to protect ethnic Russians in trouble spots such as Moldova and Southern Ossetia. Voter support for them is now tiny, but their power could grow if the economy worsens.

ARM-TWISTING. A second faction, called Civic Union, will have far more influence in shaping Russia's future. Founded on June 21, it draws largely from progressive members of the managerial *apparatus* of the communist days. It is made up of two critical groups. One is the Free Russia party headed by Yeltsin's own Vice-President Alexander Rutskoi, a moderate nationalist. The other is the two-month-old Renewal party created by the prominent industrialist and former Gorbachev adviser Arkady Volynsky.

With strong links to state-enterprise managers, Civic Union supports limited privatization and accepts the idea of bankruptcies. But for now, it wants Yeltsin to halt the 15% plunge in industrial production by easing up on harsh monetary policies. The coalition has already demonstrated its clout. It has twist-

ed Yeltsin's arm to bring in Vladimir Shumeiko, a Renewal vice-president and former factory director, as first deputy prime minister. Although a reformer, Shumeiko is far more conservative than Yeltsin's young economists who advocate shock therapy.

Civic Union economists helped draw up the new industrial restructuring program approved on June 30. The cautious program advocates retaining big monopolies in gas, communications, and transport while calling for privatizing half of state industrial assets by 1995. To control automotive, oil, and coal industries, it would create state-owned "trust companies." The aim: to avoid social upheaval by slowing down the pace of industrial restructuring while leaving the door open for managers to claim large stakes in sold-off enterprises.

The factions' future depends on how the Russian public handles continued extreme inflation and possible unemployment. Hardline legislators want to force a vote of no confidence in Yeltsin by yearend. If he loses presidential elections, his radical supporters also want a referendum on a new constitution and new parliamentary elections, providing a chance to shove out communist holdovers. But the plan could backfire if voters elect right-wingers promising better times.

For now, Yeltsin seems to be setting his sights on a moderate course by compromising with Civic Union. That may help him to ram through more economic reform laws. But they are likely to fall short of the drastic steps expected by the International Monetary Fund, which controls billions in Western aid. Yeltsin will have to persuade the West that a distinctly Russian go-slow approach is better than the sudden and dramatic changes being urged upon him.

By Rose Brady in Moscow



SEEING RED: REFORM NYET!

GLOBAL WRAPUP

SOVIET REACTORS

The West is ready to fund safety repairs for hazardous nuclear reactors of Soviet design, but at levels much lower than anticipated. Following objections by the U.S. and Japan at the Munich economic summit, a multinational kitty will be set up, but it will be funded at far less than the \$700 million initially hoped for. Now, the Europeans, who are most worried about another Chernobyl disaster, will have to finance well over half the program. The total could be reached only if Western countries help fund contracts their engineering companies win for reactor repairs.

The decision casts a pall over a longer-term plan to lay out \$10 billion to replace faulty reactors in Eastern Europe and the former Soviet Union. That plan ran into criticism at the economic summit because it could perpetuate supplies of subsidized energy to woefully inefficient former Soviet industries. In any event, the reactor decision signals that the West will keep tight controls on any monetary aid it sends to the former East bloc.

WORLD BANKING

A year after the collapse of the Bank of Credit & Commerce International, global financial regulators are finally stepping up efforts to isolate

rogue offshore banks. On July 6, the Federal Reserve and the central bank of nine other industrial nations agree to keep a keener eye on their own banks' international activities. Should some countries fail to meet the tougher standards, their banks may be barred from expanding in countries that comply.

Specifically, the plan seeks to plug loopholes that permitted BCCI to keep the Fed, the Bank of England, and other regulators in the dark on questionable deals. Sources at the Bank for International Settlements expect widespread adoption of a new code in October, when banking regulators from 10 countries meet in France.

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INTRODUCTION

BY TOM HANKS

If there is a single color that connects the game of baseball to the collective American psyche, that color is green. There are, of course, the greenbacks that are used to keep score in the business of baseball, but more fundamentally, it is the green grass that defines this playing field.

Green has been the enduring emblem of the game. The green of the grass soothes the soul and touches the heart of every ticketholder, whether they're in the lofty skyboxes or the most distant bleacher. It is the color so indelible to the soul of baseball that not even artificial turf can take away its inspiration.

Ask anyone what they remember most about their first visit to a big league ballpark, and they will say it was the green of the grass. Go back in memory to your own first visit to the *Temple Americanus*. You can still taste the hot dogs and remember the amazing geometrical precision of the diamond. But it was enveloped by greenery more lush, more brilliant, more noble in its manicured majesty than any mere lawn found elsewhere.

The green of baseball is as green as the Ireland of O'Casey, as lush as the tropics. Yet it can be found right there, standing out from the sea of concrete in the South Bronx or the six flats on the North Side of Chicago or the parched soil at Chavez Ravine.

Most of us in this country have played the national pastime in one form or another, be it in school or at the company picnic. But only a handful of us have ever been able to descend from the stands to the beckoning fields,



the greenest fields of the Republic. We envy the Professionals, the Chosen Few skilled enough to earn their way in the world through a unique combination of work and play down there on the Mesa Verde.

Most of us, no *all* of us, in the grandstand would gladly pay for the visceral pleasure of loping across the outfield or playing catch inside the warning track. We'd pay even more to take a grounder so deep in the hole at short that momentum carries us out onto the grass.

I have, thanks to the power of celebrity, been able to cross over the railing and romp amid the grasses of Dodger Stadium, Wrigley Field,

and Comiskey Park. While working on the film *A League of Their Own*, I played the game in a tree-lined demi-paradise called Huntingburg, Indiana. I swung for the fences in Evansville's beautiful brick Bosse Field. I took grounders on Dedeux Field at the University of Southern California.

Actors get used to being someone else for brief periods. But during my intermittent bogus baseball career, I often felt as though I had sneaked into the Inner Sanctum and had succeeded, somehow, in belonging there. I had thrown on somebody else's vestments and had invaded the Holy of Holies. I was not surprised to discover that Ernie Banks was right—a baseball diamond is a place one wants to linger. I ran and threw and hit under the summer sun. From the spikes on my feet to the bat in my hands, I was a Big Leaguer. And I savoured a phrase I heard long ago in the play *Bleacher Bums*: "I was playing God's own game, under God's own light, on God's own green, green grass."



PROFITS OF THE SANDLOT

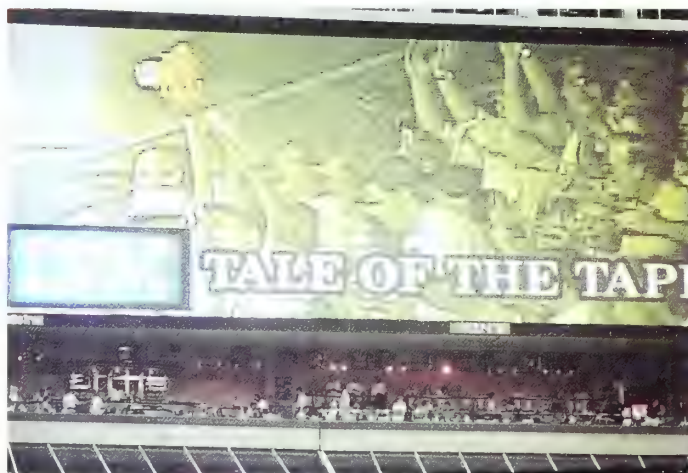


Who likes Major League Baseball as much as a 12-year-old Little

Leaguer, as much as a father and daughter taking in an afternoon game at Wrigley Field, as much as a young boy catching a foul pop with the glove he has been breaking in all spring? Corporate America, that's who. Over the past several years some of the nation's biggest and most recognizable companies have joined up with Major League Baseball in an effort to sell their products, enhance their images, reward their employees, and entertain their clients and guests. Coca-Cola, Kellogg's, IBM, United Airlines, Procter & Gamble, and Quaker Oats (Gatorade) are among the big hitters that have stepped to the plate as sponsors for the 1992 season. And by all accounts, they are delighted with the results.

Donald L. Campbell, director of special promotions for MCI, which has been an official sponsor for three years, says "MLB has an All-American image. It's the national pastime, it's apple pie, Chevrolet, and motherhood all wrapped into one. No other sport gives you quite the same feeling."

But that alone is not why MCI has invested



In addition to their technological contributions to the game, IBM's "Tale of the Tape" program enables clubs to calculate the distance of all home runs.

several million dollars to be associated with the game. "Baseball has a tremendous inventory, and it gives you almost seven months of activity that culminates in the fall with the World Series, when even lukewarm baseball fans get revved up," Campbell says. "That allows you to build an entire campaign and any number of marketing and merchandising structures around a season."

Campbell also likes the fact that baseball offers a wide variety of marketing avenues. "Whether it's upscale entertainment of customers, or mass ticket giveaways on the day

of the game, or just in-stadium promotion," he explains, "baseball lets us reach the man in the skybox as well as the man in the bleachers."

One way MCI tries to reach these people is with the "MCI Fan of the Game." A camera pans the crowd between innings, zooming in on one person who then becomes the fan of the game. He, or she, wins a prize and tickets to a

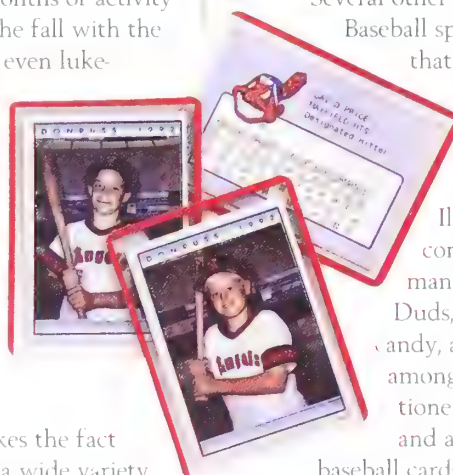
future game. The winner also gets a chance, by random draw, to go to a World Series game with a friend.

Several other Major League Baseball sponsors find that an in-stadium

presence works well. Consider Leaf, an

Illinois-based company which manufactures Milk Duds, Jolly Rancher candy, and Heath Bars among other confectionery products and also puts out

baseball cards under both the Leaf and Donruss trademarks. "It started with the 1989 All-Star Game in Anaheim when we created the instant Donruss baseball card," says Mike



BY JOHN STEINBREDER

BOBBY BONILLA • NEW YORK METS



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McIntyre, the firm's sports marketing manager. "At our photo booth fans could have their picture taken and in a matter of minutes we could turn that photo into a personalized baseball card. People were waiting in line for about two hours to get a card."

"We did the same thing at the 1990 game at Wrigley Field," McIntyre says, "and we got the same response. So we decided to do it all over the major leagues. This season we have booths in 20 stadiums." Leaf also sponsors a free ticket giveaway, which enables fans to trade in the wrappers of six brands of Leaf products for a ticket to select games. "There's no mail-in involved," McIntyre says. "Just bring the wrappers to a TicketMaster outlet or to the stadium, and you'll get your ticket."

Sounds interesting, but does it work? "We have been with Major League Baseball since 1988," McIntyre says, "and we are very pleased with the association. Not only has baseball helped enhance the company's image, but it has also helped move product. Sales rose considerably in some areas after we started the free ticket offer."

The Kellogg Company is another big fan of Major League Baseball. Last year it became the official cereal sponsor of the national pastime, uniting what Kellogg's Carlos Gutierrez, executive vice-president



"QUITE SIMPLY, BASEBALL GETS THE JOB DONE," SAYS ANDY DOLICH OF THE OAKLAND A'S.

for sales and marketing, describes as "two All-American favorites - baseball and cereal."

They do several things together. Kellogg's runs a number of promotions on its cereal boxes, offering 3-D baseball cards, free game tickets at all U.S. major league and Triple A baseball parks and random ticket giveaways to World Series games. The company has honored the World Champion Minnesota Twins and the National League pennant-winning Atlanta Braves on limited edition boxes of Frosted Flakes. And it has orchestrated several in-stadium promotions using Tony the Tiger, the Frosted Flakes mascot. Tony even showed up at spring training last year, hosting a special training session for major league team mascots. "We're delighted with our Major League Baseball tie-in," says Kellogg publicity manager Karen MacLeod. "So far, it's been a very positive relationship."

In 1984, Baseball suggested that IBM apply its technology to base-

tributions is the MLB-IBM Information System, a single, unified statistical system introduced in 1988 that speeds stats to the media and provides extensive reports for the teams and the league offices. All major league stadiums are equipped with IBM PS/2 computers, and following each game statistical information is transmitted to an

AS/400 computer at Major League Baseball headquarters and is compiled and analyzed.

IBM has also created the "Tale of the Tape" program. The company has calibrated all 26 stadiums, allowing the clubs to calculate the approximate distance of all home runs. At the end of the season, IBM determines the longest home runs and makes a donation to a local charity in honor of the winners.

The "Tale of the Tape" program demonstrates that Major League Baseball gives its corporate customers the opportunity to integrate a national program with local ones. Says Richard L. Dudley, Major League Baseball's managing director for corporate sponsorship: "One of the game's greatest strengths is its power at the local level. Baseball is stronger in that area than any other sport, and it gives sponsors a chance to hook up with each of the clubs and to reach fans through local promotions."

It must work well most of the time, for Corporate America continues to be a big supporter of the game. "Quite simply, baseball gets the job done," says Andy Dolich, vice-president of business operations for the Oakland A's. "The days of a chairman spending thousands on the game because he wants to meet players or throw out the first pitch are long gone. People now want to know how much product they can move, how much community goodwill they can buy. Baseball just happens to be one of the best places to get those things done." □



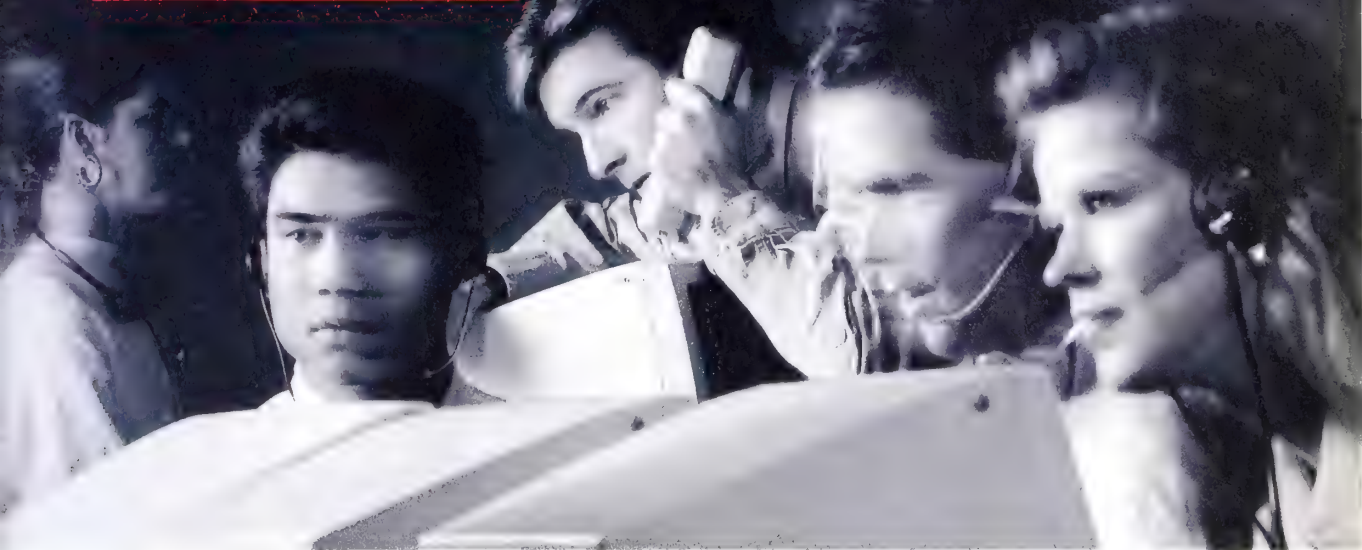
Kellogg's has a lot to offer fans, including baseball cards, free game tickets, team pennants, and chances to go to the 1992 World Series.

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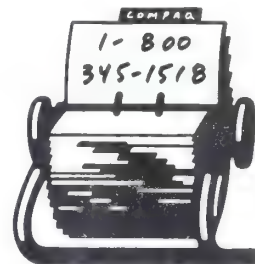
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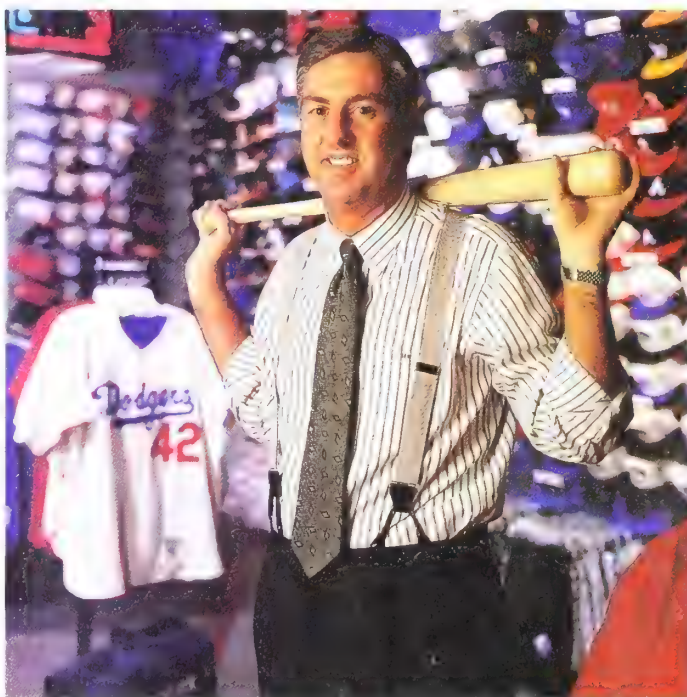
OF PINSTripES AND FLANNEL



Baseball apparel has come out of left field to become one of the licensing industry's

hottest tickets. These days, you're just as likely to see a pinstriped jersey in the upper decks as in the dugout; on MTV as on ESPN.

Who turned up the heat on baseball gear? To a degree, it can be attributed to the sizzling popularity of sports paraphernalia in general. But industry insiders also credit Rick White, president of Major League Baseball Properties, Inc., with parlaying baseball's popularity and history into high-quality products as much in demand among rockers and rappers as among affluent armchair athletes. Since White took charge of MLBP, gross retail sales of licensed baseball merchandise have grown tenfold, from \$200 million six years ago to over \$2 billion in 1991. White and his team have built a roster of more than 400 licensees who manufacture more than 2,500 products, ranging from mugs and key chains to video games and limited edition Hitchcock chairs. And, of course, apparel and accessories. The team operates on a



Rick White, president of Major League Baseball Properties, Inc., is batting 1,000 with his revamped licensing program.

gross margin of 11%; the remaining earnings are funneled back into the league's 28 clubs. Last year, each team received more than \$2 million, "pretty healthy growth," says White, over the \$30,000 they received in 1985.

"From a strictly economic standpoint, we're getting 5 to 10 times what we were getting (before)," says Bill Giles, president, CEO, and general partner of the Philadelphia Phillies. "We used to break even and we thought we were doing well."

MLBP's gameplan hasn't hurt

licensees, either. New Haven, Conn.-based Starter Sportswear and Grand Rapids-based Cutler Sports Apparel reported 50% increases in 1991, and forecast similar gains for '92. And stock prices for Tampa-based Nutmeg Mills shot up more than 500% last year, based, in part, on the company's commitment to fashion. "That's had a tremendous impact on expanding interest in licensed product," says Nutmeg president Marty Jacobson.

Although the backbone of MLB's business is its "full line" of products, items from its

upscale fashion lines—three-year-old Cooperstown Collection and six-year-old Authentic Diamond Collection—account for roughly a quarter of licensing sales. And two new collections, Rookie League and Minor League, are expected to further boost sales.

Cooperstown Collection, which last year increased sales at least 50% to \$200 million, is the fastest growing line in the licensing business, according to White. Positioned to appeal to fans who can afford a \$150 shirt or a \$500 jacket, the line capitalizes on baseball's nostalgia quotient with

BY BARBARA K. SULLIVAN

pricey collectibles and vintage-look apparel.

"In a recession, people are looking to buy things that make them feel good. It's not all about price," says Bud Konheim, CEO of Nicole Miller, a design house licensed by MLBP to produce limited edition silk loungewear and accessories for Cooperstown. Menswear designer Alan Flusser has also signed on to produce an extensive line under the Cooperstown Collection by Alan Flusser label beginning next summer.



Quality products like these LCD video games score big with armchair athletes.

Says Starter's director of merchandising, Stuart Crystal, "They've created a mystique about the heritage and history of baseball. The customer can relate to it, plus, it's fashionable."

Cooperstown Collection might be more visible, but Authentic Diamond Collection (ADC), which consists of jerseys, caps, and other uniform components, is hardly a utility player; it exceeds \$200 million in annual sales. Although ADC is a "mature" collection, there is opportunity for growth with items like sunglasses, "that are not as significant to the playing of the game, but could be very significant at retail," says Frank Simio, vice-president of retail licensing at MLBP.

Hopes are high that the just-introduced Rookie League collec-



MLBP PROVIDES TEAMS WITH THE CLOUT NECESSARY TO WORK WITH RETAILERS ON A NATIONAL LEVEL.

tion can approach the success of Cooperstown and ADC in its big-league debut. MLBP's aim is to expand youth market penetration beyond the mass market and to urge kids to learn to play the game with this line of better apparel, accessories, and sporting goods for children 12 and under. MLBP is backing Rookie League with marketing support that includes a four-color magazine and an educational program that promotes participation in the nation's 10,000 Rookie Leagues. An animated TV series is on the drawing board.

Baseball's farm system is another licensing diamond in the rough. Last year, MLBP picked up the rights to represent the 152 clubs in the National Association of Baseball Leagues. Minor league merchandise is expected to increase MLBP's business by capitalizing on the popularity of the teams with hometown fans, as well as with fashion customers attracted by the new colors, new logos, and especially names like the Mudhens, the Hornets, and the Mudcats. Any resistance MLBP felt

from franchise owners reluctant to give up control of licensing evaporated when MLBP exceeded a seven-figure, three-and-a-half year guarantee within six months.

In addition to supplying franchises with forecastable revenues, MLBP provides teams with the clout necessary to work with retailers on a national level. "Major League

Baseball Properties gets teams 'in' with major retailers," says Mike Frisbey, vice-president of Buffalo, N.Y.-based Trench Manufacturing. "There's no question it has resulted in increased sales." According to Dan McElwain, marketing programs manager for athletic apparel and footwear at J.C. Penney, MLBP "has a good focus on the needs of retailers. They're very good at listening. They communicate."

MLBP now faces the challenge of sustaining its growth as the market approaches the saturation point. Its solution: finding fresh ways to market baseball's appeal. MLBP already operates 12 Clubhouse Shops—which sell apparel, tickets, and memorabilia—and plans to open stores in every major league city, as well as abroad. MLBP also plans to build All-Star FanFest, a multi-media participation event that drew 75,000 paying fans in Toronto last summer, into a year-round, travelling attraction.

Considering MLBP's current record, achieving those goals shouldn't be an impossible dream. □



MLBP has made logoed team apparel as hot off the field as on.



A TRADITION OF CARING



Headlines often portray professional athletes as insensitive and greedy multimillionaires, while generally ignoring the overwhelming majority who equally devote time and money in support of countless charitable causes.

But for players such as Seattle Mariners' Harold Reynolds, making a difference has become a passion. When he signed a three-year contract in 1990, Reynolds threw a party for 900 impoverished kids in his hometown of Corvallis, Ore. President Bush recognized Reynolds in 1989 as a "Daily Point of Light," the first such honor for an athlete. With several African-American community leaders he helped form Role Models Unlimited, dedicated to providing youths with strong male role models.

"As athletes, we have an overwhelming platform, and instantly have a captive audience," said Reynolds.

Because of his willing involvement, Reynolds was recruited by Cincinnati Reds shortstop Barry Larkin to participate in the "Caring Program for Children." Sponsored by Blue Cross and Blue Shield, the program pro-



Seattle Mariners' Harold Reynolds, recognized by President Bush as a "Daily Point of Light," is devoted to helping disadvantaged youths.

vides health care to disadvantaged youths. Larkin is expanding the effort with a "Caring Team of Athletes," featuring one player from each major league team, with corporate donations based on the athletes' on-field performance.

Larkin said he is moved by the impact such programs have.

"I was signing autographs this winter at a charity basketball game and a girl came up to me," said Larkin, whose efforts have raised more than \$250,000 in two years. "She didn't want an autograph. She just said 'thank you' for paying her doctor bills. I almost broke down."

Such devotion to worthy causes is widespread throughout baseball. Last year, nearly \$2 million was

donated to local and national charities by Major League Baseball's national corporate sponsors, a roster which includes American industry giants such as Coca-Cola, Chevrolet, IBM, Quaker Oats (Gatorade), Kellogg's, Upper Deck, Leaf, MCI, Warner-Lambert (Roloids), and United Airlines.

In 1992, Cola-Cola's "Homers for America" program is expected to donate a minimum of a half million dollars to

build and renovate baseball diamonds for America's youths. The program's primary focus will be on youth league fields in America's inner cities and calls for Coca-Cola to contribute \$5,000 for each home run hit by a major or minor league player on Saturday, July 4.

IBM's "Tale of the Tape" program will donate \$10,000 per Major League Baseball club (a total of \$260,000) to local charities in each market. MCI will also contribute more than \$100,000 to charity through its baseball promotions, as will Leaf and Roloids.

The trading card company Upper Deck sponsors the Heroes of Baseball tour, which raises over a quarter of million dollars annually for the

Baseball Assistance Team, a non-profit organization.

BY KEN GURNICK

that helps needy members of the baseball family.

Individual teams are doing their part as well. The Boston Red Sox, for example, have for years supported The Jimmy Fund, a Boston-based cancer research and treatment institute. They also donate thousands of tickets to community service groups and aid causes ranging from Cystic Fibrosis to the Make-A-Wish Foundation for terminally-ill children.

Since 1949 the Cincinnati Reds have raised \$3.4 million for local youth baseball. Since 1984, the Philadelphia Phillies have generated \$1.5 million for the ALS Association (Lou Gehrig's Disease). The Cleveland Indians have donated more than \$600,000 to charities over the past three years. The Milwaukee Brewers gave \$100,000 last year to the Child Abuse Prevention Fund, founded by club president Bud Selig. The Texas



In support of the Jimmy Fund, from left to right: Jean R. Yawkey, the late owner of the Boston Red Sox, James (Lou) Gorman, general manager of the Boston Red Sox, Robert G. Tobin, executive V.P. and chief operating officer of the Stop & Shop Supermarket Company, Roger Clemens, pitcher for the Boston Red Sox, and Kyle Stanley.

Rangers have joined forces with the Texas State Teachers Association on a massive campaign to encourage students to work hard in school.

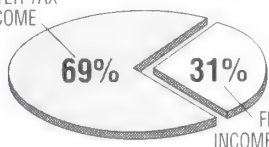
Major League Baseball is also taking a role in "Reviving Baseball in Inner Cities" (RBI). Developed by Florida Marlins scout John Young with the help of MLB and the Los Angeles Sports Council, the program was envisioned by Young not just as a way for kids to play baseball, but as a vehicle to help improve their lives. □

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THE RECOVERY: WHY SO SLOW?

POWERFUL BARRIERS TO GROWTH ARE KEEPING THE ECONOMY IN LOW GEAR

For a brief time this spring, it looked as if three years of economic stagnation, including two quarters of outright decline, were over. The economy expanded for four quarters in a row, housing was reviving, corporate profits were zooming, and consumer confidence was rebounding. The classic upturn in the business cycle seemed to be unfolding, just as in the prior eight recoveries since 1949. America was getting back off the canvas.

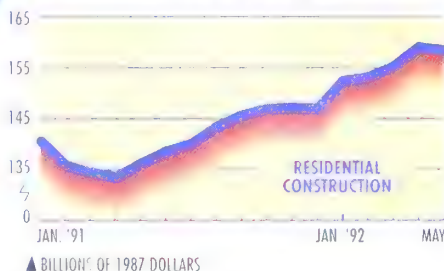
Yet as spring began to turn to summer, the numbers somehow weren't falling into place. With 2.7% growth in the first quarter, the economy should have created 200,000 jobs, enough to

keep recovery on track. Instead, private payrolls declined. And April and May brought further hints that business was reluctant to hire and consumers were hesitant to spend. It was June's jobless rate, though, that shocked business executives and policymakers around the world: Unemployment surged to 7.8%, and payroll employment nose-dived by 117,000, erasing almost all the private sector job gains since the turn of the year. Suddenly, in-

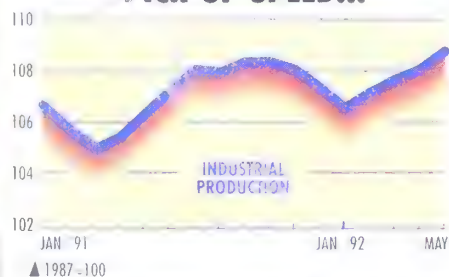
stead of expanding, the U.S. economy appears ready to stall out, just as it did last summer.

What's going wrong? Everyone knows that the financial excesses of the 1980s had left behind some structural barriers to growth. But the economy's long-term problems are turning out to be

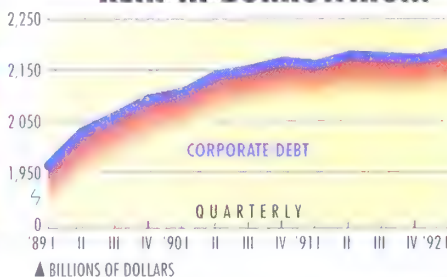
HOUSING IS STRONGER...



...FACTORIES PICK UP SPEED...



...AND COMPANIES REIN IN BORROWING...



DATA: COMMERCE DEPT., FEDERAL RESERVE, LABOR DEPT., DRI/McGRAW-HILL

are pervasive and far harder to overcome than economists, the Bush Administration, and even the Federal Reserve had ever imagined. And this failure to understand just how deep-seated the problems to growth really are led to a series of bad economic forecasts and inadequate policy responses.

When the recession first started in early 1990, most forecasters—including Federal Reserve Chairman Alan Greenspan—blamed it on the Persian Gulf war and expected a few modest cuts in interest rates to get the economy moving once the war was over. Then, when recovery didn't materialize in 1991, most people thought that a few more interest-rate cuts by the Fed would do the trick, as they have in every recession since 1948. But that, too, failed to work. By now, the Fed has cut interest rates 18 times since 1989, and the economy is still mired in the longest period of stagnation since World War II.

And every time one problem seems to abate, another unpleasant surprise pops up. Everyone worried about leveraged buyouts and the debt burden that

corporations piled up in the 1980s. But even as companies get their borrowing under control, it's consumer debt that's still too high. The banking system has avoided the collapse that some feared and returned to profitability again, but business and consumers are still paying through the nose for loans. Forecasters knew about coming defense cuts, but they thought that it would be a gradual process so the economy would be able to absorb most of the laid-off workers. Instead, the defense cuts have been deep and sudden. Everyone knew the glut of office space would linger for years, but the impact on local economies of plummeting construction spending has been far worse than anyone anticipated.

Companies that were supposed to have nearly completed restructuring seem to have started a new round of firings. In the past two weeks alone, many blue-chip companies have announced new layoffs. A second wave of firings is not supposed to happen when the economy is turning up.

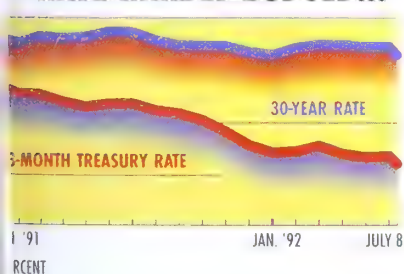
Add all the unforeseen structural

problems together, and the economy could stay flat for months. Before Election Day rolls around, the unemployment rate is almost sure to top 8%. And some fear that stagnation could continue into 1993 and beyond. Says Conway G. Ivy, vice-president and treasurer of Sherwin-Williams Co.: "We don't see signs of fundamental problems in our economy being corrected, so we see a likelihood of a sluggish, slow-growth economy for the next couple of years."

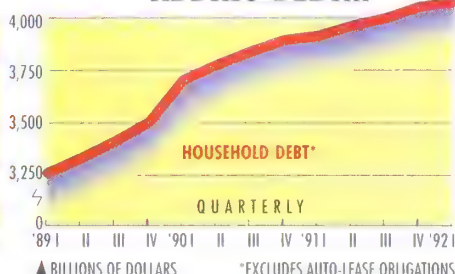
BIG PLUS. That doesn't mean the U.S. is going to sink into a new recession. Economic growth, however slow and halting, is still being propelled by many of the same cyclical forces that have driven recoveries in the past. Low short-term interest rates—the lowest in 29 years—are making some types of borrowing more attractive. From cereal makers to mobile-home manufacturers, many businesses have seen a sales rebound. Auto sales at the end of June were running at a relatively strong 7.5 million annual rate. Housing has revived from its 1990 lows. And while weakness abroad has slowed U.S. ex-



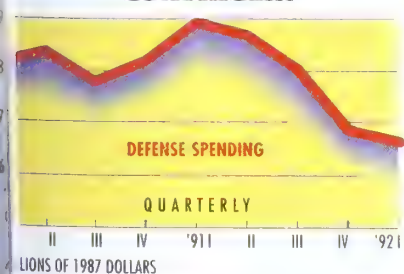
...BUT LONG-TERM RATES HAVE HARDLY BUDGED...



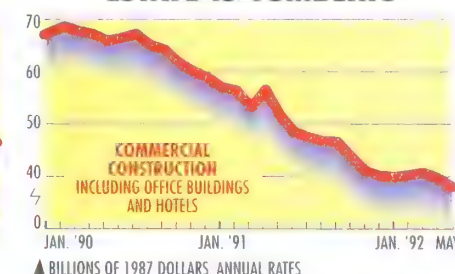
...CONSUMERS ARE STILL ADDING DEBT...



...DEFENSE CUTBACKS CONTINUE...



...AND COMMERCIAL REAL ESTATE IS TUMBLING



port growth, exports still remain a big plus for the economy.

Washington seems to have done a heroic job in rescuing the banking system. Sure, the cost of the savings and loan bailout has soared, but few savers have lost money, and there have been no bank runs. Two years ago, commercial banks, too, were in their worst shape in 60 years, reeling under an avalanche of commercial real estate loans gone bad. Yet over the past year, the profits of financial corporations, including banks, are up 40%, compared with 23% for all other corporations—a stunning reversal.

But the recovery is being hurt because the gains for the banks have come at the expense of savers and borrowers. As the Fed cut short-term interest rates from 9.85% in 1989 to 3.25%, the banks eagerly slashed the rate they paid depositors while hardly lowering their lending rates to borrowers. The widening spread between long and short rates hurt depositors, while keeping the cost of borrowing high. If the prime rate had fallen as much as CDs, banks would be charging 4.5% instead of 6% for borrowing, which would sure-

ly stimulate the economy. "The shape of the Treasury yield curve is 'bankfare' or bank welfare," says David A. Levy, director of the forecasting center at the Jerome Levy Economics Institute.

What's more, bankers are shoring up the bottom line by being stingy with loans to businesses that could stimulate the economy. Instead, bankers are being cautious and investing unprecedented sums in default-free government securities.

Over the past year, commercial banks invested \$115 billion in Treasury securities and cut back on their commercial and industrial loans to business by \$28 billion, which is hardly a recipe for recovery.

BUSTED BOOMERS. Economists were overly optimistic on recovery because they failed to fully grasp the new dynamics of consumer debt. In the past, consumers cleaned their balance sheets in recessions and the first year of recovery, which left them room to boost demand by borrowing more. But over the past two years, household debt rose by 10.2%, while aftertax income rose by only 9.4%. That's much different, for example, from the recession of 1974-75, when income rose much faster than consumer debt from the spring of 1974 to the beginning of 1976.

True, the most obvious type of consumer debt has fallen. Installment credit, including auto loans, has dropped by 10 billion over the last year. But that's far outweighed by the increase in second mortgages, including home equity loans, which rose by \$27 billion in 1991 alone. What's more, the



government's figures for consumer debt don't even count auto leasing, which has become increasingly popular. For example, General Motors Corp.'s SmartLease program leased 195,000 cars and trucks in 1991, up 86% from the previous year. In the first quarter of 1992, their lease volume was up 15% over a year ago—and none of these auto-lease obligations show up in the consumer-debt numbers.

In the past, consumers have been bailed out of their debt binds by rising incomes and by inflation—especially rising home values, which lowered the real value of their debt. Not this time. Real wage rates are declining at about 0.4% a year, putting the squeeze on consumers, and inflation has fallen to a negligible 3% annual rate. And last year's plunge in housing prices left many families with no financial cushion. The result: Consumer credit delinquencies are rising, and, according to the American Financial Services Assn., per-

DEFENSE

TWO-THIRDS OF THE 190,000 FACTORY JOBS LOST OVER THE PAST YEAR HAVE BEEN IN MILITARY-RELATED INDUSTRIES

sonal-bankruptcy filings in the first quarter of 1992 are up 10% over a year earlier. "We have a long way to go in rebuilding household balance sheets," says John Lonski, economic

at Moody's Investors Service Inc.

And while consumers are still struggling with their debt burdens, anyone with savings is being hurt by the falling interest rates that were supposed to revive the economy. For example, after the Fed cut the discount rate, California's Bank of America cut its passbook savings rate from 3.25% to an astonishingly low 2.75%, and others followed suit. And rates below 3% could soon be common.

JOB FREEZE. Even before the most recent cuts, low interest rates were devastating people who depend on savings. Maria Smith (not her real name), a 40-year-old woman who lives in a condo in Orlando, Fla., put her money into certificate of deposit when her husband died 18 months ago. Everything was fine when those CDs were paying around 7%. But now that CDs are paying 3%, her income has dropped from \$25,000 in the first quarter of last year to \$14,800 in the first quarter of this year. And she ran into a

cash-flow crunch when her payments for income taxes and expenses outstripped her income by \$4,600 this year. Although she is still comfortably off, she is worried. "You don't want to be your principal," she says. "You would like to live on the interest that is coming in."

As hard as low interest rates are on the elderly, the threat of losses is shattering the average worker's confidence. Normally, companies would have

EXPORTS

SLUGGISH EUROPEAN ECONOMIES AND A SLOWDOWN IN JAPAN HAVE LED TO FLATTER SALES OF AMERICAN GOODS ABROAD



rted to hire at this stage of the busi-
cycle. But not this time. Unable to
se prices in today's disinflationary
environment and battered by global
mpetition, companies feel that they
ed to shed even more workers in or-
to survive. Since the June drop in
employment was announced on July 1,
noco Corp. said that it will cut 8,500
s by the end of 1993. Aetna Life &
ualty Co., the giant insurance com-
y in Hartford, will eliminate 10% of
total work force, or 4,800 jobs, by
end of next year. That comes on top
2,600 jobs cut last year. "Many com-
ies really are now realizing they are
ng in a global economy," says Chris-
her J. Steffen, executive vice-presi-
nt and chief financial and administra-
n officer for Honeywell Inc., which
ects to cut 100 jobs this year by
rition. "They have to be substantially
re efficient, and they're not hiring
ple like they did."

POLITICAL GRIDLOCK. Look at Ryder Sys-
n Inc., one of the nation's largest
ck-rental and -leasing companies. It
s pared its employees down from
000 to 40,000 over the past three
ars. And even though Ryder's earn-
s of \$17.4 million were a long shot
ter than the loss of \$2.2 million a
r earlier, the company doesn't have
y plans to add workers soon, says M.
thony Burns, chief executive at Ry-
And Dallas-based SnyderGeneral
p., one of the country's largest mak-
of commercial air-conditioning and
filtration products, has had a hiring
eze on for the past six months. The
0 million revenue company also cut
1992 capital-spending budget by
ut 20%, to \$2.8 million. "Our major
cern is that we could fall back into a
ession awfully easy,"
s Richard W. Snyder,
company's chief exte-
tive. "We need to
te sure the economy
really turned."

That's holding back
hiring in many cities
e plunge in commer-
construction. Since
7, 1991, construction
office buildings, ho-
and the like has
opped by 27%, com-
ed with the 18% gain
r the last recession, when it was a
r engine of growth. This decline
affected more than just construc-
workers and real estate developers:
ripple effects have hit everyone
a lawyers to cement manufacturers.
e's no hope for a turnaround any-
soon. "You've got to be a real
nced stage, black-belt masochist"
nd to developers, says Richard L.
er, vice-chairman of Continental



Bank Corp. Without loans, developers
can't even start to think about building.

Much of the job weakness in manu-
facturing has one cause: The continuing
demobilization of the U. S. defense
economy. Defense contractor Hughes
Aircraft Co., based in Southern Califor-
nia, recently announced plans to lay off
more than 9,000 workers, or 15% of its
current work force. In Massachusetts,
Raytheon Co. is cutting
an additional 700 jobs on
top of last year's 4,900
job cut.

Without the defense
cuts, manufacturing
would be much stronger.
Indeed, out of the
190,000 jobs lost in man-
ufacturing over the past
year, about two-thirds
were in defense-related
industries such as aero-
space and communica-
tions equipment. And
with these layoffs hitting some of the
nation's most skilled and best-paid
workers, the cuts are having a dispro-
portionate impact on income.

Indeed, with defense spending drop-
ping, the government sector has be-
come a drag on the recovery rather
than a plus. Paralyzed by a \$350 billion
budget deficit, Congress and the Bush
Administration had hoped that the econ-
omy could recover without help from



BANKS

PROFITS ARE UP
SHARPLY—A
RESULT OF FALLING
RATES FOR
DEPOSITORS AND
THE CONTINUED
HIGH COST OF
BORROWING

fiscal policy. And for a
while in the spring, it
looked as if they were
right. Now, the economy
is staggering, but the
huge deficit and political
gridlock make it hard to
increase federal spending
or to cut taxes.

Yawning budget deficits
at the state and local level
are also holding back the
recovery. In California,
for instance, the governor
and legislature are bat-
tling over how best to
eliminate a nearly \$11 bil-
lion deficit hobbling a
state economy that ac-

counts for more than 13% of the na-
tion's output (page 67).

For all the structural problems, the
U. S. economy is not about to shift into
reverse. It does have a forward momen-
tum that will keep it growing, albeit
slowly. Autos are getting a kick from
easy money and pent-up demand. In
June, Detroit sold cars at a 6.8 million
annual rate, up substantially from May.
And dealers say people are now coming
in to buy, not just to look. Karen M.
Tibus, the owner of Saturn of Plymouth
in Plymouth, Mich., says things have
been going so well for her dealership
that customers have to wait an hour-
and-a-half to talk to a salesperson.
"We're gonna have a very empty lot
real soon," she reports.

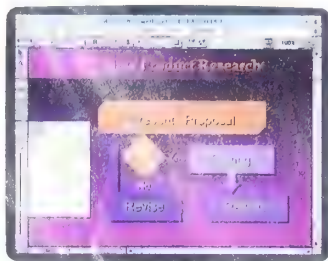
The \$5.8 billion mobile-home industry
is also looking up. After seven years of
depressed results that wiped out half
the industry, shipments started turning
up sharply at the beginning of 1992.
"It's about time," says Nicholas J. St.
George, president and CEO of Oakwood
Homes Corp. in Greensboro, N. C.,
which is the second-largest company in
the industry.

Other types of businesses are also
doing well. General Mills Inc., for exam-
ple, racked up a 16% gain in net income
in the fiscal year that ended May 31,
and the company intends to boost capi-
tal spending somewhat over the next
three years. Even small businesses are

Mary Sue Will You

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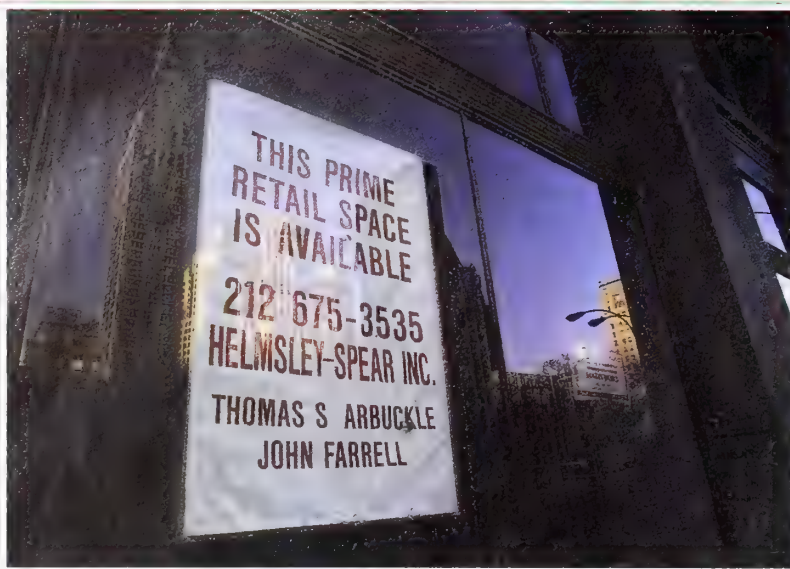
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Cover Story

seeing improvement. With his MBA in telecommunications complete in 1991, Stephen K. Morris, 37, of Piedmont, Calif., opened a consulting practice. "Clients are increasing the number of projects and the hours involved," he says. "They are definitely looking at an improved economy and improved sales."

HOT FRIDGES. The housing market, too, is getting better, despite some erratic swings. In Pittsburgh, for example, housing starts and home sales are holding up, and loan demand for mortgages and refinancings remains sturdy, says Stuart G. Hoffman, chief economist at PNC Financial Corp. And sales of refrigerators, stoves, washers, and other major appliances have been reasonably strong, perhaps because consumers simply have to replace models as they break down. Through May, major-appliance shipments were up 5.7% from a year earlier, and appliance makers such as General Electric Co. and Frigidaire Co. expect a modest increase in sales in the second half of the year.

Another piece of good news is that unlike individuals, corporations have streamlined their balance sheets. In each of the past two quarters, nonfinancial corporations raised new net equity capital at an annual rate of \$50 billion. They've also taken advantage of lower interest rates to reduce their overall debt payments. Carnival Cruise Lines Inc., for instance, called a zero-coupon convertible paying an interest



rate of 7.5% and replaced it with a \$100 million convertible paying 4.5% and some bank borrowings. Ryder has also cut its debt from \$3.1 billion to \$1.9 billion in the past two years. "Our financial condition is stronger than it has been in a decade," says Chief Executive Burns.

As a result, corporate debt has hardly grown over the past year. This has left companies poised for expansion once the economy shows some real signs of strength. For the first time in months, healthy companies are visiting First Union Corp., a major bank in Charlotte, N.C., window-shopping for rates and loan terms. And in Boulder, Colo., loan demand is particularly strong among high-tech and biotechnology companies that are expanding or relocating to the area.

Exports are still a source of strength for the U.S. economy, even though their growth has slipped in recent months as Europe and Japan slowed

REAL ESTATE

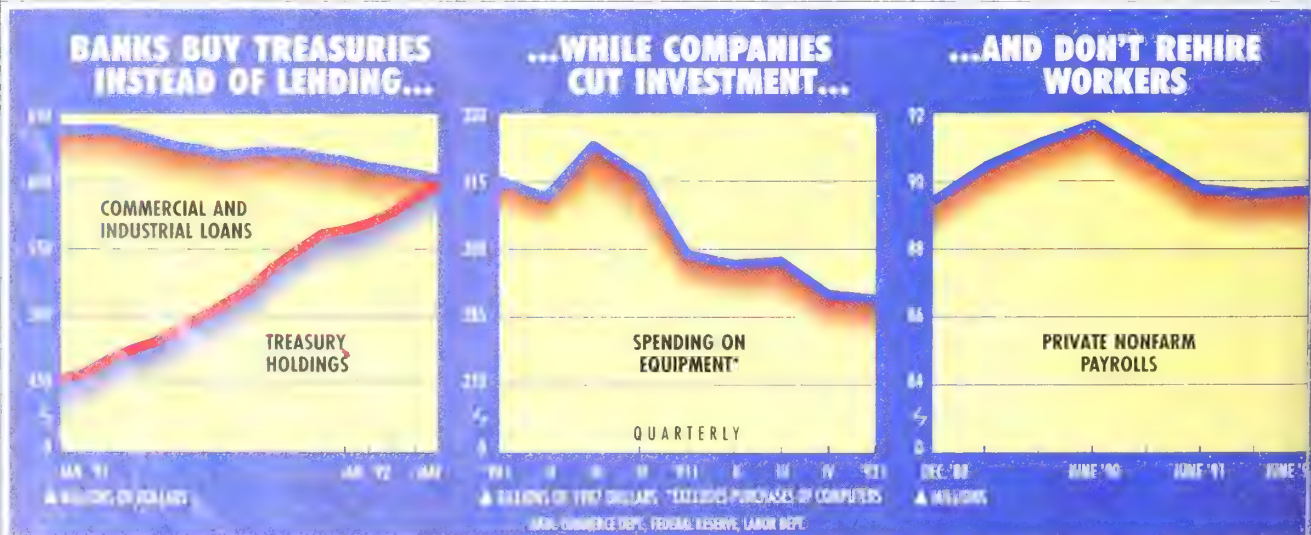
COMMERCIAL CONSTRUCTION, A MAJOR ENGINE OF GROWTH IN THE 1983 REBOUND, IS STILL PLUMMETING

down. Lackluster growth overseas counts for the level off in semiconductor sales, says James D. Feldhan, executive vice-president at market researcher In-Stat Inc. America's largest exporter, Boeing Co., is building planes, but its backlog of overseas orders is starting to fall.

Still, U.S. companies are no longer hobbled by a higher cost of capital than their foreign competitors, and hourly labor costs in the U.S. are among the lowest in the industrialized world. Combined with the falling dollar, that helps keep U.S. goods and services competitive abroad.

Right now, that is not enough to overcome the structural barriers to spark a healthy rebound. But monetary policy is easy enough and pent-up demand for housing and autos strong enough to ensure that the recovery is not abort.

By Christopher Farrell and Michael Mandel, with John Meehan in New York, Lois Therrien in Chicago, Zachary Schein in Cleveland, Chuck Hawkins in Atlanta, Gail DeGeorge in Miami, and bureau reports



THE OTHER FAULT LINES SLICING THROUGH CALIFORNIA'S FUTURE

It has been a rough year for California. A drought, floods, and the melting-gnawing white fly took turns plaguing the state's \$18 billion-a-year agricultural industry. Parts of southern California still haven't dug out from the Los Angeles riots and a pair of massive earthquakes. But the problems for America's once-Golden State run much deeper: Unemployment is at nearly 10%—two percentage points above the national average—and businesses are fleeing.

For the first time, it appears as if the country's most populous state, a traditional engine for the national economy that managed to grow 25% faster than the rest of the U.S. in the 1980s, may no longer have the resiliency or recreating ability to grow its way out of recession. The

costs of restructuring in defense, financial services, and energy have cost the state more than 600,000 jobs in the past two years—many of which may not return. In the Los Angeles area alone, 193 companies have left in the past 10 years, taking with them 47,000 jobs, according to the Economic Development Corp. of Los Angeles County. "Many of them are skilled jobs that provide a significant amount of tax," says Jack A. Ser, the group's chief economist.

Worse yet, the 1978 passage of Proposition 13 launched the state on a course of tax limitations, while a growing influx of immigrants, as well as West-Belt transplants, strained social services. Meanwhile, stringent regulations and escalating workers' compensation fees sent many tax-generating businesses packing. "We are in for several of these anemic growth years," cedes state Treasurer Kathleen Wn.

DUSS. The squeeze is already being felt in Sacramento, where Republican Governor Pete Wilson and the Democratic-controlled legislature are battling over how to close a \$10.9 billion budget deficit. With no budget in place, the state out of money, California is suing more than \$11 million a day

in IOUs. Even after that money is repaid, however, California faces wrenching choices—from a massive tax hike to deep cuts in funding for its enormous public-school system, which will have 5.2 million students this fall. Such drastic actions could accelerate the exodus of businesses fleeing to states such as Utah or Nevada with lower taxes and fewer regulations.

"Our real dilemma is whether we are mortgaging our future," says David Hensley, an economist at the University of California at Los Angeles who worries that almost-certain cuts in the state's school budget will undermine the quality of its work force in the long run. The public schools are already hurting: They spent a mere \$4,866 per student in 1990, ranking California in

equation, says Richard Katz, chairman of the Assembly's Transportation Committee. The city of San Diego alone may need up to \$5 billion to repair and expand an overtaxed sewage system that ruptured in February.

With no-tax Republicans controlling the statehouse for the past decade, numerous initiatives have appeared on the ballot to raise money. And in the past 18 months, the state has floated \$7 billion in new revenue bonds. Even with the July 6 downgrading of the state's bonds by Moody's, Treasurer Brown intends to issue \$10 billion more as soon as possible. "When the Fed goes to 3%," she says, "it's time to borrow and build for the future."

TRICKLE-DOWN TROUBLES. Right now, though, the money is plugging revenue shortfalls. And it's far from clear that California's revenue base will grow fast enough to carry the new debt. Total interest costs on long-term debt today total \$750 million a year. Revenues this year are running behind already pessimistic projections.

The state continues to spend huge amounts of money on welfare programs, and Wilson is pushing a ballot initiative this November that would slash welfare payments by up to 25%. But the initiative is given only a 50-50 shot of passage. With-

out it, the state almost certainly faces another round of tax hikes only one year after it collected \$7 billion by raising sales taxes and increasing levies on the wealthy. Now, too, the problems are trickling down to localities: This year, county governments hope to boost sales taxes to offset reductions in state funding.

Even worse news may loom. Another ballot initiative, this one aimed at overcoming Prop 13 tax limits, would boost property-tax rates for businesses without affecting those of homeowners. If that succeeds, it may strike with even more force than last month's 7.4 earthquake for many companies wondering whether to stay in California.

By Ronald Grover and Eric Schine in Los Angeles



A SCHOOL IN RICHMOND: MORE CUTBACKS FOR A FALTERING SYSTEM

the bottom third of the country in such outlays. One of the governor's money-saving ideas is to postpone the entrance of 110,000 kids into kindergarten this year by sliding the qualifying birthdate for entrance.

The state's higher-education system is also coming under the knife. This year alone, Wilson wants to slash \$2.3 billion in spending and hike the tuition for state-funded colleges and universities by up to 40%. The tuition increase would force as many as 200,000 lower-income students to drop out of California's 107 community colleges, say legislative budget analysts.

Education will take the biggest hit, but the state's 32 million citizens will suffer in other ways. Sewers, available landfills, and prisons are woefully inad-



EDUCATION

WHEN JOHNNY'S WHOLE FAMILY CAN'T READ

As illiteracy grows, America is trying to develop new weapons

About 23 million Americans can't read this sentence. That might surprise many people who see illiteracy as a malady of a bygone era, like smallpox. Or as the stuff of jokes, like Vice-President Quayle's inability to spell "potato" a few weeks ago. But the deficiency is no laughing matter for those who lack English and math skills, and, increasingly, for their employers. Says Gail Spangenberg, vice-president of the Business Council for Effective Literacy, a non-profit group: "This is not a new problem, but a problem with a new urgency."

The reasons for the problem vary: the dropout rate (a persistent 30% of the high school population), the cumulative effects of schools that promote and even graduate students who fail courses, the decade-long influx of immigrants to the U.S. But primarily, the issue is one of a growing gap between the skills people have and the skills that jobs demand. Paradoxically, while the time spent on recreational reading and writing has decreased, the need for

literacy skills professionally has increased.

Jobs are changing—especially in manufacturing. The number of unskilled and even semiskilled jobs is declining. "Once, you could just show up and use your hands to operate a machine. Today, our employees are expected to use their heads as well as their arms," says Don Rice, vice-president for human resources at Torrington Co., which three years ago began noticing a disparity between the average skill level of its employees (7th grade) and that demanded by the work (12th grade). Torrington isn't alone. A recent National Association of Manufacturers survey of 360

companies found that one-third regularly reject job applicants for poor reading and writing skills; 50% reported serious deficiencies in basic math and reading skills among their workers.

Current programs are evenly split among traditional volunteer tutoring groups as Literacy Volunteers of America and government-funded adult education—reaching only 5% to 10% of the in need. The National Literacy Act, passed last year, offers some help: provides \$1 billion over the next four years to fund projects—and

search on what makes programs work.

'BASIC TASKS.' The more innovative programs focus on what educators call "functional illiteracy"—people whose skills are at fourth- to eighth-grade levels but who can't perform fundamental tasks: filling out job applications, using train schedules, understanding a newspaper. Some 23 million to 27 million Americans—20% of adults—are at this level. Another 12 million are marginally better but still can't function effectively. "We are not talking about the ability to be a nuclear engineer but doing basic tasks in a sophisticated factory," says Peter Waite, executive director of Laubach Literacy Action.

At the Stone Savannah River Pulp & Paper Corp., literacy problems came to light when the company started to retrain workers to use automated equipment. In 1981, embarked on a \$346 million overhaul of machinery in its Port Wentworth (Ga.) plant. But "before we switched from manual controls to computerization, we thought we'd better find out what educational levels our employees had," says Butch Branch, personnel supervisor. "What we found

scared us." Despite a high school dropout rate of one-third of the mill's workers lacked the 8th grade math and reading skills needed to operate the equipment. So the company spent \$200,000 on an on-site classroom complete with a full-time teacher and a dozen personal computers. Since three years, all but one of the 153 student employees had reached the required level—and then set a production record.

Workplace liter-

A SAMPLER OF CORPORATE LITERACY PROGRAMS

ADOLPH COORS Runs learning center (cost: \$80,000 a year) to teach employees and their families to read and work toward general equivalency diploma. Staffed by Coors employees and retirees

EXXON Teaming with local library to offer English reading and writing classes for illiterate Hispanic employees at Baytown-Olefin plant in Texas

GTE Financing (\$400,000 to date) family literacy programs for the public, run by Literacy Volunteers of America in 10 communities where GTE is based

MOTOROLA Mesa (Ariz.) plant holds courses on company time in math and reading for workers who test below eighth-grade level; is experimenting with self-paced and home-computer programs

You've heard what the political candidates have to say about health care reform. Now perhaps you'd like to hear from America's doctors.

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Those who have insurance often lose their coverage when they change jobs, simply because of a prior illness.

And Medicaid, the public health care program that was created to help the poor, currently excludes more than half of those desperately needing care.

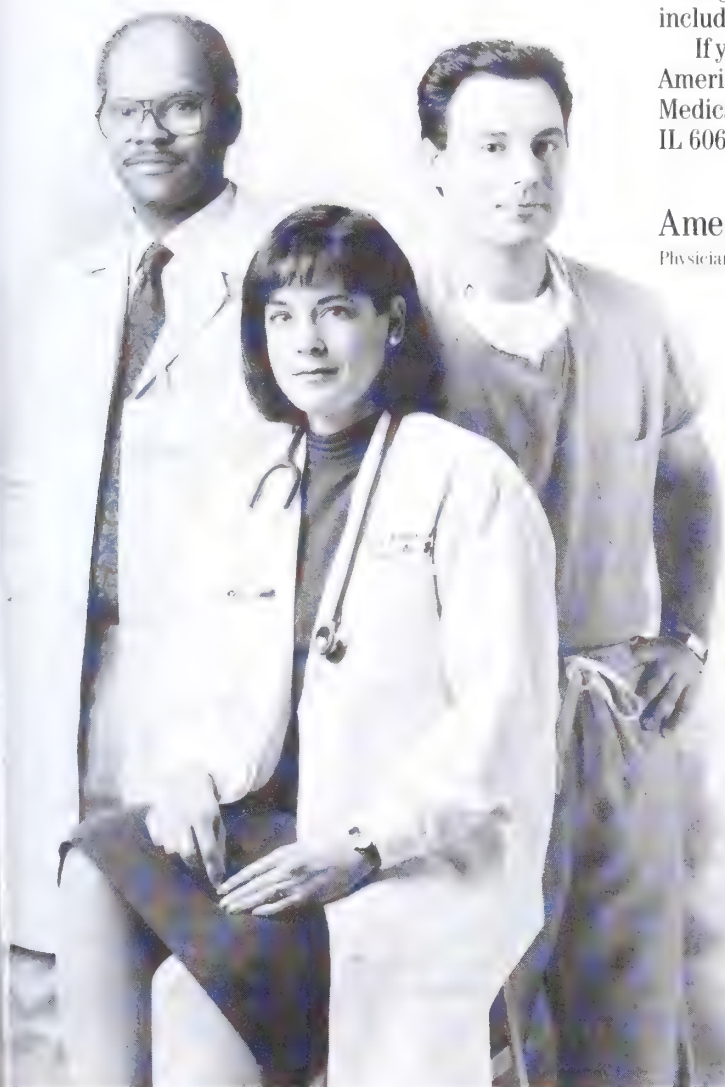
The 300,000 member physicians of the American Medical Association think this is wrong. We believe our system *must* be improved. And we have a proposal, called Health Access America, that will provide affordable health insurance to *all* Americans, while containing costs and preserving individual freedom of choice.

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If you would like to learn more about Health Access America, write Dr. Jim Todd, Dept. 405, American Medical Association, 515 North State Street, Chicago, IL 60610. Or call us today at **800 621-8335**.

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classes—held on-site and often on company time—are becoming more common at companies, ranging from General Motors Corp.'s \$30 million investment in 150 of its plants to Eli's Chicago's Finest Cheesecake Inc.'s lunchtime classes. Usually taught in conjunction with a community college, library, or volunteer group, these programs differ from traditional tutoring methods in several ways. They're taught in small groups, instead of one-on-one; they're often shorter and more intensive, meeting several times a week over three to six months instead of the usual two hours per week; and, most of all, the instruction methods are geared to the work at hand, teaching with materials that the employees would use on the job.

NO DROPOUTS. Retention in these classes tends to be quite high, because "people can see the results of what they learn on the plant floor. Where there's relevance, there's retention," says Brenda Pounds, education specialist for Entergy Corp., a New Orleans-based utility. Entergy finances a unique program: a trio of mobile literacy labs that tour factories in Arkansas, Mississippi, and Louisiana year-round, teaching 300 employees a week.

Because of the customized nature of the classes, workplace literacy programs are more costly than traditional tutoring—roughly \$300 more per student. But they can be more effective. Virtually everyone finishes a workplace course, in contrast to the typical adult education course, where dropout rates can be as high as 80%.

While workplace programs deal with illiteracy on the job, another innovation—the family literacy movement—attacks the problem on the home front. Recognizing that illiteracy is often passed from parent to child, these programs combine teaching reading with general parenting classes; the best of them address both parents and preschoolers. Atlanta's Family Literacy Collaborative, funded by grants from Toyota Motor Corp., First Union Corp., and the local Junior League, runs a day-long program at several elementary schools. While children attend preschool classes, their mothers brush up on basic math and literacy skills. Then the groups come together for a mutual lesson: running a make-believe grocery store or writing a fairy tale.

What more could be done? Certainly companies could redirect their employee training dollars: Corporate America "spends \$30 billion to \$40 billion a year on job training, but only 10% goes to blue-collar workers where the need is most pronounced," says Jerome M. Rosow, president of Work in America Institute, a research group specializing in workplace productivity. Most important, companies have to learn that illiteracy is their problem—not solely that of the public schools.

By Troy Segal in New York, with Karen Thurston in Atlanta and Lynn Haessly in Cleveland

The Corporation

STRATEGIES



RJR CAN'T SEEM TO FIND A SPOT IN THE SHADE

Cigarette market share is off—and woes may loom in foods

When the U.S. Supreme Court ruled on the Cipollone case last month, executives at RJR Nabisco Inc.'s tobacco division in Winston-Salem, N.C., were "dancing in the halls," recalls one executive. RJR, which was not named in the case, saw victory for cigarette makers in the high court's decision to allow tobacco liability suits only in cases of misrepresentation and fraud. Wall Street seemed to agree: After an initial drop, tobacco stocks have rebounded.

But it may be a while before there is much more cause for celebration at RJR. There's no denying that the company's financial picture has improved dramatically since Kohlberg Kravis Roberts & Co. took control in a \$26 billion 1989 leveraged buyout. Long-term debt is now at \$14 billion, almost half the level of three years ago. Last year, RJR recorded its first net income since the buyout, earning \$368 million on \$15 billion in sales. But now, Chief Executive Louis V. Gerstner Jr. faces more fundamental and perhaps even thornier operating and marketing problems.

Tobacco, his cash cow, is most troubled. Cigarette sales in the U.S. are declining by 2% to 3% a year, and market shares for two of RJR's flagship brands, Winston and Salem, have dropped at an even faster rate. Winston's share fell 7.5% last year, from 8.8%, while Salem slipped from 6.1% to 5.4%, says John Maxwell Jr. of Wheat First Securities Inc. And despite the company's initial euphoria, the Supreme Court decision may allow for more litigation as all tobacco groups become increasingly organized and sophisticated.

HIDDEN SINS. RJR could soon start feeling the pressure in its food business as well. The food unit, which accounts for about a quarter of RJR's \$2.9 billion operating profits, must contend with sluggish growth and recession-weary consumers who have grown resistant to price hikes for Ritz crackers, Life Savers candy, Grey Poupon mustard, and RJR's roughly 100 other food brands. "When you can raise prices, you can cover all of sins," says Kevin Rollins, a consultant with Bain & Co. "But consumers have hit the ceiling in the prices they'll



for top brands." RJR stock, which came back onto the market last year at a price trading at around 9½, near its low. The problems are clearly getting plenty of attention from Gerstner, who declined to be interviewed. After massive price-cutting in both divisions, he has orchestrated a dramatic strategic rethink to shore up market share in tobacco and boost operating profits in food.

In cigarettes, Gerstner has refocused the focus on RJR's aggressive brands and deemphasized expensive new-product introductions. To help catch up in growing international markets—where Reynolds gets 31% of cigarette sales vs. rival Philip Morris' 51%—the company recently broke ground for a factory in Turkey, bought one in Hungary, and is planning a major expansion in Russia. In early 1991, it announced a new Turkish joint venture as well.

To cement the leader in tobacco, RJR now commands only 28% of the total U.S. market, a distant second to Philip Morris' 31%, says Maxwell of Wheat First. In tobacco, chief, James W. Johnston, is separately trying to stop the free-to project a quality image for Winston and Salem, he has begun using betanin, a whiter paper, and a special wrapper that is supposed to keep cigarettes fresher. RJR is also trying line extensions, including Camel Wides and Winston Select.

To get smokers to switch to these new

and reconstituted brands, Johnston has blitzed consumers with buy-two-get-one-free promotions and discount coupons. The specials have helped check market share declines for Winston and Salem, and the Camel brand has gained share, analysts say. But the improvement comes at a steep price. Marketing expenses kept operating profits in the tobacco business flat last year at \$2.3 billion (chart). David Anderson, chief financial officer for the tobacco unit, says profits will probably be flat again in 1992. "We're looking at earnings as secondary to market-share performance," he explains.

NO RUSH. Some cigarette distributors say the extra promotions are still not enough to boost sales. During the LBO days, they say, RJR's sales and marketing support slipped badly, and Philip Morris swooped in. Thomas A. Garner, an Atlanta cigarette and candy wholesaler, used to sell two-thirds Reynolds products and one-third Philip Morris. Now it's the opposite. "Philip Morris is eating Reynolds' lunch," he says.

RJR executives are working on big ad campaigns to boost the brands' images and help the company rely less on expensive promotions. More ads, however, may not bring price-wary smokers back to name brands. New discount smokes such as Doral and Cambridge now represent a fat 28% of the tobacco market, up from about 15% three years ago.

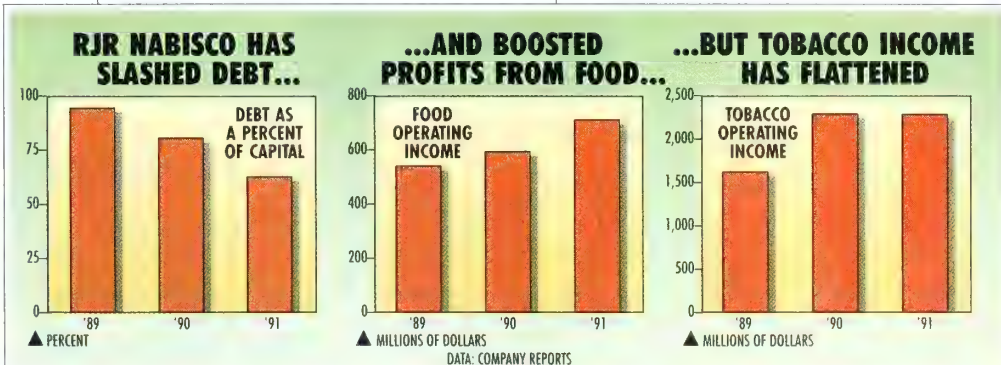
Rough as the market-share battle can be, the courtroom could prove an even meaner turf. "Clearly, it's a defective product, and now we are free to use that argument," says Marc Edell, the lead

cause the Supreme Court upheld the notion that warning labels preempt most liability suits.

The food business faces no such legal clouds, of course. But just like tobacco, it is plagued with slow sales growth and vicious price wars. So far, RJR has handled the problem by trimming costs while unleashing a torrent of new products such as Mini Oreos and Ritz Bits. Operating profits last year climbed 20%, to \$715 million, on an 11% rise in sales, to \$6.4 billion. An impressive 10% of North American food sales came from new products and line extensions.

Part of the credit belongs to last year's sweeping reorganization of the food unit, which decentralized marketing, manufacturing, and new-product development. The result is cost savings, plus faster new-product introductions and more-flexible distribution systems to appeal to consumers' changing shopping habits. For instance, it has introduced smaller packages of many of its products to cater to convenience outlets and drugstores. This month, the company plans to announce more new items. Barbara S. Thomas, senior vice-president for marketing for Nabisco Brands Inc., says the company will offer more nutritious products for "the healthy snacker."

LOOKING ABROAD. Still, analysts predict that once the novelty wears off some of the new brands, RJR will have to wrest market share from competitors with aggressive price-cutting and promotions. RJR's food sales in the first quarter increased only 1.7%, largely because the U.S. cookie and cracker industry registered a decline in sales volume.



lawyer for the Cipollone family, which sued three tobacco companies, charging them with causing lung cancer in longtime smoker Rose Cipollone. Edell believes the high court has left the door open for him to argue in tobacco trials that the risks of smoking far outweigh any benefits. This so-called risk-utility argument was struck down in the lower court's Cipollone ruling, though it has been used in several liability cases involving other types of products. An RJR spokeswoman insists the company is not concerned about future liability cases be-

Like its tobacco unit, the company's food business is turning overseas for growth. The focus is faster-growing regions such as Latin America, where RJR recently bought interests in several food companies. But even that effort may not be enough. "Nabisco has an oar in the water overseas, but they're not anywhere near their competitors," says Bain's Rollins. Until RJR can find a way to ensure long-term growth in both food and tobacco, there probably won't be much more dancing in the halls.

By Walecia Konrad in Atlanta

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When Congress enacted clean-air legislation in 1990, many in business saw clouds on the horizon. All John B. Henry II saw was opportunity. The 43-year-old lawyer set up Clean Air Capital Markets, a boutique investment bank that is designed to capitalize on the Clean Air Act's pollution credit-swapping scheme. Under the law, cleaner utilities can sell pollution "credits" to dirtier ones, which can use them to meet the emis-

s standards. Henry wants to profit as the middleman by trading partners and brokering the trades. So far, he's batting a thousand. Last May, he brokered the pollution-credit trade when the Tennessee Valley Authority paid Wisconsin Power & Light \$3 million for the right to 10,000 more tons of sulfur dioxide. The Wisconsin utility traded credits for 25,000 tons of emissions to Duquesne Light Co. but handled that deal itself. Henry then handled the other trade to date on June 30, when Aluminum Co. of America sold Ohio Edison Co. credits worth \$8.75 million. It's slow going, but Henry knows about starting small. After toiling as a Senate staffer and New York lawyer in the 1970s, he launched an agricultural biotech firm called Crop Genetics International Inc. in 1981. By 1990, the firm was capitalized with \$64 million and had begun testing its agricultural pesticides. Henry, though, grew tired of being more a dealmaker than dealmaker and left to start Clean Air Capital. The challenge will be persuading stodgy utilities to do something new. "It's important that somebody break the ice," Henry says. Trading the right to pollute isn't likely to heat up like tech. But for now, Henry has a good head start.

By Peter Hong in Washington

ANITA JAMES: DUSTING OFF E BOOK-OF-THE-MONTH CLUB

a book-club member's nightmare: opening the box to find another unwanted hardback and adding the hassle of lug- it back to the post office. That scenario has been more and more common as worms to chain stores and discount outlets, leaving the venerable Book-of-the-Month Club Inc. with declining sales and depressed earnings for the past two



"We need to change our old-fashioned image," says Anita James, who in January was installed by parent Time

Warner Inc. to do just that. "We want people to think of us as a service, not a nuisance."

James, 39, caught the attention of Time's top brass when she turned around Time-Life Libraries Inc., a unit that sells Time-Life Books and music over the telephone. By giving managers more profit responsibility and improving telemarketer training, she boosted both sales and morale. At Book-of-the-Month, she has marketing in her sights. Using detailed surveys and computer records of buying patterns, she's trying to judge members' interests better so the club can tailor book offerings accordingly. That way, a member who bought a sailing book one month might be offered another water-sports book the next—not a tome on the Civil War.

James, a Princeton University graduate and Columbia MBA, has shown a flair for waking people up. Last October, at a meeting where book-club execs typically drone on about upcoming strategies, James had her crew replace their suits with Halloween costumes reflecting their divisions. The head of the cookbook club, for instance, gave his sober-faced speech in chef's garb. James, the teller of company fortunes, was in gypsy attire. "In a high-pressure environment, you need a pressure valve," James says. Of course, reversing Book-of-the-Month Club's fortunes would turn down the pressure, too.

HELENE HAHN: THE LEGAL EAGLE BEHIND MICKEY MOUSE

On just about every Friday of the ski season, Helene Hahn flees the smog of Los Angeles and heads for the mountains of Utah. That doesn't mean she isn't working. Even as she pounds through the moguls in Deer Valley, the top lawyer for Walt Disney Studios is tied by cellular phone to the moguls in Hollywood. Talking on the chairlift is "one way to keep calls short and to the point," Hahn says.



The 43-year-old New York native is among the most powerful women in the film industry—she's the legal muscle behind Hollywood's stingiest studio. Her boss, studio chief Jeffrey Katzenberg, relies on Hahn to write most of Disney's film and television deals. Eddie Murphy and Steve Martin still get their huge salaries. But when Kim Basinger delayed production of *The Marrying Man* by staying off the set, Hahn had Disney lawyers knuckle down with legal threats that got Basinger to work. To keep *Dick Tracy* costs from spiraling out of control, she cut an innovative deal requiring star and producer Warren Beatty to swallow budget overruns in return for a piece of the profits. "Warren still made a huge amount of money," Hahn says. "But Disney was protected on the downside."

Hahn has been with Katzenberg ever since she rose through the ranks at Paramount Pictures Corp. Together, they brought *Star Trek* to the big screen. She followed him to Disney in 1984, where she helped craft limited partnerships that raised more than \$1 billion for Disney films. Some deals haven't done so well—such as a pact to buy the rights to Jim Henson's Muppets that crumpled into nasty litigation. More often than not, though, Hahn helps keep Disney's costs pointed downhill.

By Ronald Grover in Burbank, Calif.

THREE SHOPS WITH PLENTY TO SWEAT ABOUT

Ad agencies' campaigns for Subaru, AmEx, and Miller show how hard it is to repair images in the '90s

Dan Wieden is frustrated. The president of ad agency Wieden & Kennedy Inc. has just unveiled a new batch of commercials for Subaru of America Inc. Wieden insists the ads are a natural evolution of his agency's off-beat campaign. They do have the same visually arresting style and use the same elliptical slogan: "Subaru. What to Drive." But the ads also promote the car's all-wheel drive and antilock brakes. And that more orthodox approach has fed speculation that Wieden is retreating from its strategy of making Subaru a totem for the unpretentious Nineties. "It's getting hard to make anyone believe us," says Wieden.

No wonder. When an adman starts to talk about a campaign's evolution, it's usually a sign of a species in trouble. At least the Japanese carmaker and its shop are in good company: American Express Co. and Miller Brewing Co. also rolled out major new ad campaigns with much fanfare in 1991. All three followed protracted and much publicized account switches. Yet while they have stirred plenty of controversy, none has revived lagging sales. Subaru sales are basically flat. American Express has failed to reinvigorate its charge cards with its new slogan, "The Card. The American Express Card." And Miller Lite beer continues to lose ground despite trying a cocky tagline: "It's It. And That's That."

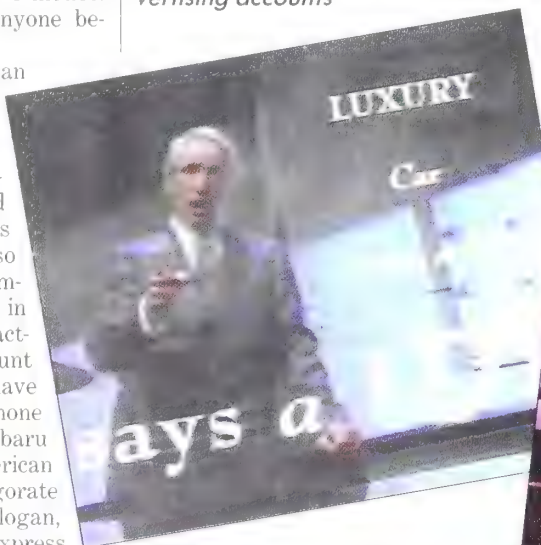
LOST MOMENTUM. The lackluster results are all the more surprising because the campaigns come from agencies renowned for creativity. Wieden won kudos for its kinetic advertising for Nike Inc. Perennial hot shop Chiat/Day/Mojo Inc. created the new American Express campaign. And Miller Lite's new ads came from Leo Burnett Co., the Chicago agency known for introducing the legendary Marlboro Man. What's more, the campaigns enjoyed the highest of profiles: All three had been major hits in the 1980s, even if they stumbled in the

more saturated markets of the 1990s.

Has Madison Avenue lost its power to turn lemons into lemonade? Not exactly. But these three campaigns are case studies in the limitations of advertising: It is hugely difficult for any ad to restore a slipping brand. "What all three have in common is the assumption that these are advertising problems and not

ROUGH PASSAGE

Recent milestones in three of Madison Avenue's highest-profile advertising accounts



SUBARU Wieden & Kennedy wins \$60 million account last June.

Status: Agency is shifting focus of TV commercials from a discussion of values (above) to an emphasis on product features (right)

structural or marketing problems," says Al Ries, chairman of marketing consultancy Trout & Ries.

Sure, the agencies may not have produced stellar campaigns. But Ries and other marketers say much of the blame lies with clients who allow brands to lose their way in the first place. It's a long tradition in marketing: Unable to address fundamental problems, clients fire

their longtime agencies, conduct new searches for new shops, and trumpet their new ads as a panacea. Then, when sales don't pick up, the ads come under sharp criticism. "We are blamed if the advertising doesn't turn things around," complains Christopher Wackman, who oversees the campaign as Subaru's vice president of marketing.



In Subaru's case, retail sales have barely budged since Wieden's campaign premiered last August, rising just 3.4% in the first half of 1992. Subaru points out sales for the Legacy, which gets much of the attention in the line, are up 9.1%. Overall, though, Subaru will sell about 105,000 cars in 1992, shy of its target of 130,000.

Subaru blames the economy, but

marketing efforts haven't helped. For years, it promoted its unfashionable cars as "Inexpensive. And built to stay that way"—even as its new models were selling steadily more pricey. Subaru dealers say Wieden's first ads were only a partial solution. They positioned Subaru as a car that appeals to solid values rather than glitz. "If [a car] improves your standing with the neighbors, then you're among snobs with distorted values," says the narrator in one spot.

ED MESSAGES. Ad critics loved the quirky tone. But dealers say the spots don't give consumers enough reason to choose a Subaru instead of a Honda or a Toyota. "We like the fact that they were giving us a new image," says Rick Dea, president of Liberty Subaru in Mendell, N.J. "But they weren't giving us a product story." Wieden concedes Subaru waited too long to push the car's virtues. The new ads do plenty of that, starting out that Subaru's durable engine lets drivers "rack up the miles." But Subaru is finding it tough to go

On the contrary, AmEx reports that in the first quarter, its total number of cards in use declined by 2.7%.

Worse, the campaign has been derided for saying too many things. "As a marketing executive, I was always taught to see the good in my competitor's advertising," says Bradford W. Morgan, executive vice-president for marketing and sales at Visa USA Inc. "But I'm really having trouble with American Express."

For its part, AmEx insists it is too early to tar the ads. The marketer claims its internal research shows they have improved consumer attitudes toward the card. "We are absolutely sure we are breaking through," says Joan Bonnette, vice-president for consumer advertising. But Bonnette says AmEx is tinkering

AMERICAN EXPRESS Chiat/Day/Mojo grabs \$60 million charge-card account from incumbent Ogilvy & Mather with visually offbeat ads. **Status:** AmEx pulls two print ads and one TV commercial

demned the campaign as vacuous and said it didn't give Lite any image—youthful or otherwise. "I thought it was kind of flat," says Kirby Lawlis, president of distributor Miller Brands Milwaukee Inc. Worse, Lite's 1991 sales dropped 5%, to 19 million barrels, despite an estimated 33% increase in ad spending. That's the first decline in the brand's history. So Burnett has phased out "It's It" and replaced it with "Come on. Let me show you where it's at..." Paul E. Basquin, director of Miller's low-calorie brands, claims the change was "evolutionary" and says the original slogan

C'MON!

It's it and that's that.

LEADER LITE Backer Spielvogel Bates loses the \$100 million account after 17 years. Agency Leo Burnett introduces slogan "Miller Lite. It's It. And That's That." last July. Status: Slogan largely phased out

market, American Express is having trouble staying there. After years of wooing customers that "Membership is our privilege," the company has seen its position eroded by fierce competition from Visa and other bankcards. As the spendthrift 1980s lurched to a close, AmEx also felt that its gilt-edged image had become a liability.

Now, AmEx has set the modest goal of retaining current cardholders. Like Subaru, it wants advertising to stress the card's suitability for a more fiscally responsible era. But it also wants to play up traditional benefits, such as the card's lack of a preset spending limit. Chiat's mission is to turn the card into an icon: In its ads, the card doubles as the tail of a person's jet or a ball that a golfer hits out of a trap. But the interweaving of 1980s imagery with a message of fiscal prudence hasn't won over cardholders.

with the campaign, and she won't rule out shelving it. Unless AmEx confronts more basic issues, such as its high membership fee and lower merchant-acceptance rate, it can't hope to retain share, says H. Spencer Nilson, publisher of the *Nilson Report*, an industry newsletter.

ALIEN-ATED YOUTH. Some experts say Miller faces an equally tough battle. Despite a fabled slogan—"Tastes Great. Less Filling"—and a dominant position in the low-calorie market it created, Lite has seen its share whittled down by Bud Light and Coors Light. The trouble is, Lite allowed Bud and Coors to lure away younger drinkers, who now make up a solid chunk of the market. So to freshen Lite's image, Miller retired the aging jokes from its vintage campaign.

Burnett rolled out its new slogan to almost universal criticism last July. Miller distributors and ad critics con-

still appears on billboards. And he says the campaign boosted awareness of Lite.

Yet a new Lite commercial eschews the bar scenes of the "It's It" spots in favor of an offbeat spot of aliens that land on earth and have a party with Lite. Lawlis and other distributors say the approach is more hip and youthful. Still, some industry experts say it will be tough to restore Lite's momentum, no matter what ads Miller airs. Having once ceded young drinkers to Coors and Budweiser, this argument goes, Lite has stunted its future growth.

That's a tough thing for any agency to reverse, especially given the pressure to produce a short-term sales kick. Coveted as these accounts are, Wieden, Chiat, and Burnett are learning a hard lesson. As adman Gerrold Rubin explains: "Sometimes it's easier to create a brand from scratch than to change one, because the concrete is already hard."

Rubin should know: His agency helped transform Honda from an econobox into a best-seller. But he had a decade to do it. That's a luxury these three agencies aren't likely to enjoy.

By Mark Landler in New York and Julia Flynn in Chicago



THE PENNY-STOCK BOYS ARE BACK

Securities cops see some new faces—and some old acquaintances

When state and federal regulators launched a crackdown on penny-stock fraud during the 1980s, they aimed straight at the top. One by one, penny-stock kings such as Meyer Blinder, chairman of Blinder, Robinson & Co., were forced out of the industry, their brokerage empires dismantled. With the most prominent boiler-room operations shuttered, regulators preened. And they enacted new rules they expected would forestall future scams. One Securities & Exchange Commission official last year boasted that the crusade was "one of our great successes."

But the gloating was premature. During the past year, authorities concede, they have detected a disturbing upsurge in penny-stock activity. Enforcement actions soared last year to 115, roughly triple the number in 1988. Penny-stock promoters have become adept at exploiting loopholes in the new rules. "There was some amount of glee among regulators that we had won, that we'd thrown the bums out," admits Colorado Securities Commissioner Philip A. Feigin. "Maybe we planted the flag too soon."

CLOSE TIES. Some of the fastest growth in penny-stock trading, according to law enforcement officials, is coming from firms captained by top aides of the promoters the SEC thought it had driven out of the business. Hibbard Brown & Co., which is run by several former aides to First Jersey Securities Chairman Robert Brennan, has grown to more than 400 brokers in eight states. A smaller New York firm, F. N. Wolf, has so many former Brennan brokers that regulators dubbed it "First Jersey II." And employees of Stuart-James Co., which was forced into bankruptcy two years ago, are now running Franklin-Lord Inc.,

based in Scottsdale, Ariz. Many of Stuart-James' former brokers have joined forces with an ex-Blinder Robinson executive to create Chatfield Dean & Co. The Englewood (Colo.) firm has 500 brokers and now ranks as the largest U.S. penny-stock dealer. "It's like hitting mercury with a hammer," moans Ohio Securities Commissioner Mark V. Holderman. "You close one firm and four or five open in its place."

Hibbard Brown and Franklin-Lord couldn't be reached for comment. An F.N. Wolf official declined to say whether many Wolf brokers came from Brennan.

In some cases, ties between the older firms and the offspring are so close that authorities are concerned that the older firms simply shut down and then reorganized to dodge legal liabilities.

Such questions have dogged Chatfield Dean since it took control of eight Stuart-James offices with 200 brokers last year after Stuart-James liquidated. One lawyer familiar with the bankruptcy proceedings believes that Chatfield Dean never paid for the Stuart-James offices, and that Stuart-James quietly transferred at least \$1.2 million in cash to the new firm.

Chatfield Dean President Sanford

'THERE WAS SOME AMOUNT OF GLEE AMONG REGULATORS THAT WE HAD WON, THAT WE'D THROWN THE BUMS OUT. MAYBE WE PLANTED THE FLAG TOO SOON'

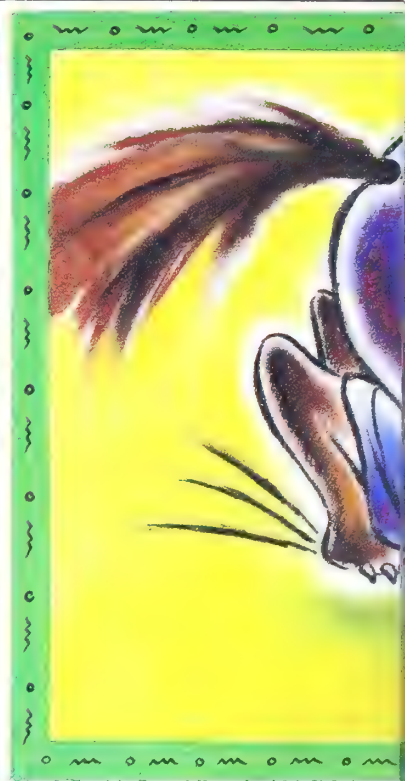
NEW SKIRMISHES ON THE PENNY-STOCK FRONT

STRATTON OAKMONT INC.

In a Mar. 20 suit, the SEC charged New York-based Stratton with illicitly promoting and manipulating stocks. According to the SEC, Stratton executives goaded its brokers to act like "phone terrorists" and to "take [customers] to the mat." Stratton is challenging the charges

J.W. GANT & ASSOCIATES

The NASD on June 18 issued Colorado-based Gant making markets in stock days. The NASD said on shares of Bali Jewelry excessive markups—as as 77% above Bali's price market price. Gant is the sanctions





But according to the government, that hasn't stopped some firms. In a March 1990, nationwide sweep of 188 brokerage firms by a penny-stock task force, regulators found violations at 23% of the firms serious enough to warrant enforcement investigations. Some firms, authorities say, manipulate stocks—or engineer reverse stock splits—to boost price above \$5 to exempt the securities from the cold-call rules. Regulators say some penny-stock brokers have been using the same heavy-handed approach. Penny-stock hustlers have employed the same tactics in the past. According to an SEC suit filed last March, managers at Stratton Oakmont Inc. in Lake Success, N. Y., impersonated young brokers to act like “phone phishers” and to “stay on the phone ‘til you die or buy.” After Stratton brokers made sales, the SEC contends, they often engaged in rapid-fire trading—often unknown to customers—that generated hefty commissions.

Take Bernard M. Simon, a 59-year-old retired retailer from Elmwood Park,

N. J. In May, 1991, he got a call from a Stratton Oakmont broker who convinced him to buy 2,000 shares in an obscure medical testing firm. After the stock ran up, a Stratton broker persuaded Simon to flip his profits into other speculative stocks. That's when his broker began making unauthorized trades in stocks that quickly collapsed, costing Simon \$12,000. “It was a bait-and-switch game,” he contends. “They put me into stocks they were ready to dump.”

Stratton Oakmont is contesting the charges. Stratton's attorney, Ira Lee Sorkin, acknowledges that every brokerage might have a few overzealous brokers, but “wholesale charges of a boiler room have no support.”

Some firms seem simply too fleet for the regulators. After the National Association of Securities Dealers charged First Securities Group of California Inc. with selling millions of dollars' worth of nonexistent municipal bonds in September, 1988, the Beverly Hills-based firm simply moved several buildings away

and continued operating illegally as FSG Financial Services Inc., the U.S. Attorney in Los Angeles says. By the time government investigators closed FSG down, in July, 1991, FSG Financial customers had lost \$27 million. In June, 1992, the U.S. Attorney charged John Anthony Genetti with master-

minding “a complex racketeering and securities fraud scheme” at FSG. Genetti's attorney says his client pleaded not guilty.

Although the new rules have had some impact, a number of firms have become adept at taking advantage of loopholes, regulators say. Take Chatfield Dean. Greenberg says his firm now sells mostly John Hancock mutual funds and NASDAQ securities, rather than the small-capitalization stocks that aren't eligible for a NASDAQ listing and are subject to the most abuse by brokers. But regulators believe that many dealers sell such mainstream products only long enough to exploit an exemption from the SEC's cold-call rules. The rules say that a broker can get a customer to trade without written consent only after the customer has bought three stocks or has held an account for a year. BUSINESS WEEK has learned that one state already is investigating whether Chatfield Dean has switched investors from mutual funds into speculative stocks after the required period. Greenberg denies the practice.

Penny-stock dealers in Ohio have found yet another way around the law. Unlike other states, Ohio exempts brokerages from joining the NASD and being subject to its membership rules if the brokers sell stocks only to Ohio residents. Brokers contend that not even the SEC cold-call rules apply to them, though the SEC disagrees. It's no surprise, then, that mainstream Ohio-based brokerage firms are complaining that some dealers have turned the state into a free-trade zone for penny-stock hustlers.

A LONG REACH. They've also managed to get around Ohio's own investor safeguards. According to a class action filed by attorney Dennis E. Murray Jr., Worthington-based Dublin Securities Inc. evaded state rules governing public stock offerings. The lawsuit says Dublin put together a private group—primarily consisting of brokers—that paid \$1 a share for 500,000 shares of Environmental Safety First Industries Inc. Dublin, the suit alleges, later bought back those same shares for \$1 to \$2 each before reselling them to the public for as much as \$5.75 a share. This tactic allegedly allowed brokers to skirt state rules requiring them to give investors prospectuses and limiting the markup on shares sold in public offerings. In May, after two and a half years without any revenues, ESFI filed for Chapter 7 liquidation. Dublin officials could not be reached.

Other firms are looking far beyond U.S. shores. More and more, penny-stock dealers are pitching foreign stocks to U.S. investors—a play that regula-

CHATFIELD DEAN & CO.

In May, NASD fined Chatfield Dean \$100,000 for entering NASDAQ listings with excessive commissions. It also censured and suspended the firm for failure to supervise brokers, guaranteeing investments, and unauthorized trading in its Chicago office. Chatfield is ap-

HIBBARD BROWN & CO.

Delaware officials this February barred the New York firm from selling stocks but stayed the order pending Hibbard's appeal. Regulators allege that Hibbard brokers put investors in unsuitable stocks and made misrepresentations about the stocks' future prospects

DATA BW

tors feel is ripe for fraud. While the sale of foreign stocks in the U. S. is governed by SEC rules, regulators are finding it's much harder to investigate claims about obscure, far-flung foreign companies. "The internationalization of markets has a dark side," says Colorado's State Securities Commissioner Feigin. "How do we check out Indonesian companies with a \$3 million float?"

Take First Choice Securities Corp. Colorado regulators spent weeks calling various European patent offices just to investigate claims made by First Choice brokers that a company called Rephex had obtained patents valid in 11 European countries. Brokers also claimed the tiny Irish manufacturer of electrodes was about to be listed on a U.S. stock exchange and that First Choice was waiving commission charges except for a \$20 "ticket fee." After investigators determined those claims were all false, Colorado regulators filed suit last August against First Choice, accusing the firm of using high-pressure sales and misrepresentations to defraud more than 300 investors who bought \$1.1 million in Rephex shares. First Choice is contesting the charges and says claims made by its brokers are accurate. First Choice officials could not be reached.

NO BLANK CHECKS. Regulators are once again betting that rule changes can stem the new abuses. Under an SEC rule scheduled to take effect in January, 1993, brokers will be barred from selling penny stocks without first disclosing to investors the current "bid" and "ask" prices and the broker's commission. The broker must also provide a monthly update on the value of investors' holdings.

The SEC also would restrict promoters of so-called "blank check" offerings—in which interests are sold in a limited partnership that invests in a chosen industry. Promoters would have to notify investors when an acquisition is made. Investors would then have up to 45 business days to demand their money back.

But this time around, regulators have more realistic expectations. They realize that, considering the strained resources of the SEC and the states, the new rules can only go so far. Regulators are also cautious about imposing regulations so severe they would impair legitimate efforts to raise capital for small businesses. Their biggest hope is that requiring greater disclosure could save some investors from scam artists. But, says Maryland Securities Commissioner Ellyn Brown, "There's a point at which you can't save people from themselves." That chastened attitude is quite a change from regulators' victory declarations just a few years ago.

By Dean Foust in Washington

CORPORATE FINANCE

'YOU CAN SECURITIZE VIRTUALLY EVERYTHING'

And investment houses are trying, as asset-backed issues flourish

Few financial innovations have been more of a bonanza to Wall Street than asset-backed securities. Packages of loans and receivables that trade like securities, asset-backed instruments issued by nongovernment entities have mushroomed into a \$50 billion market, up from \$9 billion in 1987.

Traditionally, these securities have been backed mainly by car loans and credit-card receivables. The biggest securitized market, over \$1 trillion, is home mortgages packaged by such government-owned and sponsored agencies as the Government National Mortgage Assn. (Ginnie Mae). But now, investment houses are pushing the securitization trend into a wide array of other credits—everything from loans for boats and motorcycles to computer leases and commercial real estate loans. GPA Group PLC's Guinness Peat Aviation, Citicorp Investment Bank, and Lehman Brothers International recently underwrote a \$312.6 million issue backed by aircraft leases, the first such offering. Earlier this year, Salomon Brothers Inc. sold the first issue of securities

backed by railcar leases, a \$998 million public offering from an affiliate of IteL Rail Corp. and GE Capital Corp. Merrill Lynch & Co. is preparing what would be the first nongovernment securitization of small-business loans, a \$200 million deal for a unit of Fremont General Corp., based in Santa Monica, Calif.

FEW LIMITS. Although issuance of traditional asset-backed securities has been growing relatively slowly, securities backed by the newer credits, according to Merrill Lynch figures, jumped 195% in the second quarter of this year, vs. the first quarter. So far this year, these credits have been the second-most-active sector in terms of new issues after auto loans.

Wall Streeters say the sky's the limit when it comes to securitization. "You can securitize virtually everything," says Andrew D. Stone, senior managing

director in charge of mortgage and asset-backed securities at Daiwa Securities America Inc. "The imagination is the only constraint—and time, because you can't chase every deal."

Among the new markets being tallied about most enthusiastically on Wall Street are trade receivables, hospital receivables, computer leases, auto leases of bankrupt companies, U.S. receivables of European and Japanese companies, and car-dealer receivables. Perhaps the biggest and the most difficult potential market could be commercial real estate. But even niche markets are finding buyers. Says David Katz, senior vice-president of Ironwood Capital Partners Ltd., which recently sold a \$60.3 million issue backed by photocopy

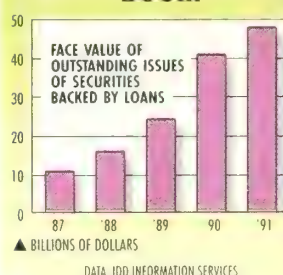
leases: "It was extremely well-received. We were oversubscribed."

Stone's division at Daiwa specializes in even more exotic—and often problematic—assets. His deals include nonperforming commercial mortgages in New England, mobile home-park loans, and home-equity loans from bankrupt institutions, all of which were placed

with private investors.

The reasons behind the rush to securitize are abundant. By transforming virtually illiquid, often risky individual loans into much less risky and more liquid securities, securitization has attracted a wide array of eager investors. It has vastly expanded the debt market. Investors like the relatively high yields and investment-grade credit ratings of asset-backed securities. Most of the issues receive AAA and AA ratings because of the wide diversification of the loans and because rating agencies insist on further protections to investors. In June, Merrill Lynch was able to sell \$200 million in securities backed by mortgages issued by Walter Industries, which is currently in bankruptcy, because the issue was substantially collateralized and guaranteed by a AAA-rated bond insurer.

THE SECURITIZATION BOOM



an originators, such as banks and insurance companies, like securitization use it allows them to make loans and then quickly move them off their balance sheets, which lessens the capital need for loan reserves. Borrowers benefit because asset-backed securities attract much more money. And Wall Street, of course, likes the hefty fee it earns.

EXCESS RISK. Detractors, though, worry that securitization could go too far. The process works best when the packaged loans are homogeneous and have predictable risks and income streams. That may not be the case with some of the newer categories of loans. "There's more risk associated with these assets because there is less information readily available," says Howard W. Alderson, director of asset-backed securities at Financial Guaranty Insurance Co., which has done \$3.7 billion in guaranteed asset transactions.

Mortgage-backed securities were first

Making illiquid loans liquid has drawn a wide array of investors and has vastly expanded the debt market

Commission included a number of changes that would open the door to the public sale of a broader class of asset-backed securities. More specifically, SEC Chairman Richard C. Breeden has emphasized that he would like small-business loans to be securitized as a way to lessen business' credit crunch. To accomplish this, the SEC is expected to modify rules that restrict loans backed by receivables.

Bank regulators are also considering regulatory changes in accounting and capital requirements that would make securitization of commercial real estate

As if that were not enough of a challenge, the RTC is now trying to securitize and sell its \$6.6 billion in nonperforming commercial real estate loans. That won't be easy. "These differ from the performing mortgage deals because with them you weren't looking for anyone to do anything with the loans," says Kenneth J. Bacon, director of the RTC's office of securitization. "Here, we're saying clearly that to realize value, someone will have to monitor these mortgages and actively manage them." The RTC plans to recruit workout specialists as equity investors.

Outside of the RTC, however, only a very few commercial real estate securitization deals have been concluded. According to David Tibbals, a managing director with Salomon Brothers, investors are uncomfortable with the potential risks. In some cases, they're demanding such high yields that the deals are uneconomical for most banks.

COOKIE CUTTERS. While enthusiasm for securitization is at a high pitch, developing a wider and deeper market for many of the loans will be tough. A major problem is that many of the loans involved with some of the proposed varieties of asset-backed securities may not be sufficiently homogeneous and predictable. Home mortgages packaged by Ginnie Mae and the other agencies are popular because lenders are required to adhere to very strict guidelines, such as loan-to-value ratios. Securitization of home-equity loans, by contrast, has proceeded very slowly because loan standards vary widely among lenders.

Critics of securitization also wonder about the extent of unanticipated risks lurking in unseasoned assets. Many of the newer securities may turn out to be much less liquid than home-mortgage-backed issues. Investors—primarily pension funds and money managers—may not find much of a secondary market if they need to sell.

Regulators, too, are concerned. They fear that the practice will lead to banks making only "cookie-cutter" loans that are easily securitized afterward. That could leave out some legitimate borrowers who don't fit the pattern. Asks Robert F. Storch, chief of the accounting section of the Federal Deposit Insurance Corp.'s Supervision Div.: "Is that serving community needs properly?"

These drawbacks may impede the new securitization boom, but probably only slightly. "It won't explode overnight like some of my investment-banking friends would like it to," says the RTC's Bacon. "But that's probably healthy in the long run. Fast growth often leads to a fast fall, like in the 80s." For overeager securitizers, that's good counsel.

By Suzanne Woolley in New York, with Stan Crock in Washington



developed in the early 1970s by Ginnie Mae. Along with the Federal National Mortgage Assn. and the Federal Home Mortgage Corp., Ginnie Mae vastly expanded the market for residential mortgages. That laid the groundwork for flourishing nongovernment securitizations.

Although investment firms are the active proponents of expanding the markets, regulators have also been urging more securitization. In its proposal to overhaul the Investment Company Act of 1940, the Securities & Exchange

Commission made loans more appetizing for banks. That could ease banks' capital pressures.

The pioneer in commercial real estate has been the Resolution Trust Corp. To date, the RTC has turned \$1.3 billion in performing commercial real estate mortgages into securities. The RTC's first issue yielded 8.8%, about 2 percentage points over seven-year U.S. Treasury bonds. But to get the AAA rating from the rating agencies necessary to attract a large pool of investors, the RTC had to keep a huge 30% cash cushion against losses.

A BLUE MOON FOR BONDS

The uncommonly huge gap in rates could mean big rewards

After 15 years of negotiating the rocky terrain of the bond market, Philip Barach has seen wild extremes: a 20% prime rate in the early 1980s, a 14% Treasury bond mid-decade, and, recently, the lowest short-term interest rates in nearly 30 years. But most astounding to Barach and thousands of other bond-market pros is the gigantic spread currently between the three-month U.S. Treasury bill, now 3.30%, and the 30-year Treasury bond, 7.61%.

Indeed, the range of interest rates on bonds of varying maturities—when plotted on a graph, it's called the "yield curve"—is at a historic high. There are 431 "basis points" (each is $\frac{1}{100}$ of 1%) between the three-month and 30-year government securities (chart). That may not sound like much, but in the bond market, it's light-years.

As with most aberrations in the financial markets, the steep curve offers both big risks and big rewards. Many bond players—including Barach, who counts the Enterprise Government Securities Fund among the \$5 billion he manages for Trust Co. of the West—avoid the extremes and focus on the middle, in the two-to-five-year range. At that point, he says, "investors are getting paid an awful lot to take on a little more risk."

'SWEET SPOTS.' Of course, most of the time, long-term rates are higher than short, and for good reason. Investors who buy long-term bonds demand a higher interest rate to compensate them for the risks of waiting decades to get their principal back. Shorter securities yield less since the principal is repaid sooner. But the difference between long and short is typically less than 200 basis points. The average curve of the last 10 years, says Francis H. Trainer Jr., head of fixed-income investing at Sanford C. Bernstein & Co., spans only 172 basis points. If today's curve were "normal," he adds, the three-month Treasury bill would yield about 5%, and the 30-year just 6.7%.

Two years ago, with the economy slipping into recession, the difference between short and long rates was only 40 basis points, a virtually flat curve. But then the Federal Reserve began a massive effort to stimulate the flagging economy by using its power to force short-term rates down. Yet the Fed has little control over long rates, which have come down only grudgingly. The reason

who normally prefer the security of money-market funds and certificates of deposit. But the steepness of the yield curve affords risk-shy investors opportunities, too. The trick is to find "sweet spots" on the slope that will let them get additional yield without a commensurate dose of principal risk, should interest rates nudge back up. Says Ron Ryan, a bond-research firm: "If you're a good skier, you go to where the slope of the curve is best."

GOING LONG. Ryan, for one, finds opportunities in the two-to-three-year range. In moving from three-month bills to three-year notes, he says, the yield rose from 3.30% to 4.89%, almost a 50% increase in income with a small increase in principal risk if interest rates go up. Other managers advise investors to move out to five-year bonds, at 5.5%, where they can get yet another 1% yield. Under a more typical yield curve, the difference between three- and

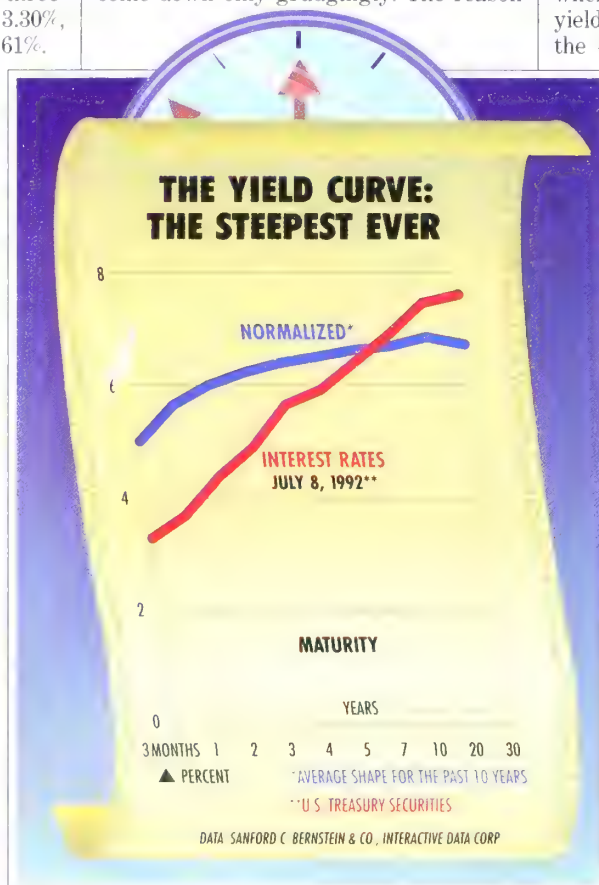
seven-year yields would be less than 100 basis points. Seven-year notes are attractive, too, for investors who can take a little more risk. With a 6.41% yield, they offer 84% of the income of a 30-year bond but only half the market risk.

Lamle says tax-paying investors could choose AAA municipal bonds with three-to-seven-year maturities. They now yield about 83% to 85% of what taxables do. For those in a 31% tax bracket, a five-year muni at 4.9% equals a 7.2% taxable bond. Lamle thinks investors will pick up some capital appreciation if munis rally to catch up with Treasuries.

Taxable or tax-free, Bernstein Trainer says investors should choose securities slightly longer in maturity than what they normally choose. Long rates, he predicts, will eventually follow the short ones down. "The yield curve is stretched thin like a rubber band, and you can't keep stretching it forever," he says. But might rates pull short ones back up? Not likely. The Fed controls short rates, and, for now, it wants those rates to stay down.

Of course, there's no guarantee all will turn out the Fed's way. But if investors want to bet against the powerful central bank. Sure, it's chancy chasing the money funds and CDs, but those who preserved principal by following that course have seen their interest income dwindle. Now, the yield curve's unusual behavior is offering them a chance to enhance their income significantly with a little more risk.

By Jeffrey M. Laderman in New York



is that bond investors are wary of the ballooning federal deficit, of a potential revival of inflation, and hence of a rebound in interest rates. A one-percentage-point climb in rates would clip 12% off the value of a 30-year bond. With such fears, "long-bond investors are on strike," says Hugh R. Lamle, head of fixed-income and quantitative analysis at M.D. Sass Investors Services.

True, the precipitous drop in short rates is a blow to risk-averse investors

Although a small player in the \$12 billion long-distance telephone industry, Resurgens Communications Group may soon be joining the big leagues. The reason: Billionaire John Kluge, owner of privately held Metromedia Co., has snapped up a 28% interest in Resurgens in exchange for a \$20 million loan he had extended the company in April. Now, the betting is that Kluge may buy a controlling interest in Resurgens and merge it with Metromedia Communications, a unit of Metromedia Co.

Resurgens operates mainly in the North and Southwest regions. It provides operator-assisted long-distance telephone services to credit-card callers and those who call collect, as well as to pay phones and multiphone facilities such as hospitals and hotels.

ELY PRELUDE. Why would Resurgens interest Kluge? Pros say buying the company would be a convenient way of going public again. Resurgens is listed on the American Stock Exchange, so a merger would make Metromedia Communications a listed stock. "We believe the current arrangement is a likely prelude to a merger of the two companies," says Steve Shook, an analyst at the Charles (N. C.) securities firm Interstate/Inson Lane. A combination, he believes, will be "an excellent fit" and will give Metromedia another vehicle for acquisitions. As a public company, Metromedia could well finance acquisitions with stock rather than cash. The company's long-distance telephone options are centered in major cities, including Boston, Dallas, Los Angeles, Miami, and New York.

ut even without a merger, the k, currently at 33¢ a share, is th 6 a share, says Shook. He fig- s Resurgens will earn 35¢ a share t year, up from an estimated 10¢ year. The company posted a 7¢ in 1991. Resurgens, he adds, "rep- sents exceptional value based on with prospects alone."

ne New York money manager pres-
s that Resurgens shares will at-
t investor attention once the likeli-
d of a Metromedia-Resurgens deal
mes visible. "Resurgens has be-
e a gem of a buy because of the

STOCK PRICE

DATA: BRIDGE INFORMATION SYSTEMS INC.

Date	Stock Price (Dollars)
JAN. 20	5.2
	5.0
	4.8
	4.6
	4.4
	4.6
	4.8
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players involved," says this pro, who has started buying shares. Based on past deals in the industry, he puts the takeover value at 8.

Resurgens Chairman Mike Marshall and CEO Jack Phillips, who own a combined 16% interest in the company wouldn't object to a merger. "We are in talks with Metromedia regarding business opportunities in the industry," says Phillips, who has been in previous deals with Kluge. Marshall also looks forward to closer ties with Metromedia. "Obviously, Metromedia isn't in the banking business, so Mr. Kluge wouldn't have invested money in Resurgens had he not seen value in the company," says Marshall. Kluge couldn't be reached for comment.

Investors have cut out of retailing stocks, spooked by the weak economy and the Chapter 11 filings by such department-store giants as R. H. Macy and Carter Hawley Hale. So it is no surprise that Leslie Fay, a major supplier to department stores of women's dresses and sportswear, is down on the floor, too. Its stock has fallen to 14 a share from its high of 23 in February. But not everyone has counted out Leslie Fay. Some value players have started buying in.

One of them is money manager Ed Walczak, chief investment officer in the U.S. of Vontobel, the Swiss bank with assets of \$17 billion. "The stock has become a classic, conservative value situation, where the rewards far outweigh the risks," says Walczak.

He's convinced the company is well on its way to an earnings turnaround. With cash flow exceeding requirements for capital spending, Leslie Fay has been paying down debt—reduced from 40% of capital last year to 28% this year, notes Walczak.

The stock currently trades at a depressed price-earnings multiple of 9, notes Walczak. Based on his estimates of \$2 a share this year and \$2.20 next year vs. 1991's \$1.90, he sees the stock rising to at least 20 by yearend.

Analyst Alice Beebe Longley of Donaldson, Lufkin & Jenrette Securities also likes Leslie Fay. "The company has earnings gains ahead of it that aren't yet reflected in the stock," she says. "When consumers become more confident, department stores will enjoy a rebound that will benefit Leslie Fay, probably in 1993," she says. Apparel and textile stocks, she feels, will begin to excel again no later than November.

Lady Luck hasn't been smiling on most of the gambling stocks of late. The group has been on a losing streak since April, but Wells-Gardner Electronics has pulled a surprise: It has been heading in the opposite direction, hitting new highs. How come?

"Wells-Gardner has a niche-hold in a business that we believe will expand dramatically over the next few years—video lottery and casino gambling," says investment adviser Charles LaLoggia, who puts out the *LaLoggia Special Situation Report*. The company is a major supplier of color and monochrome video monitors to the big companies that make video lottery terminals, slot machines, and coin-operated video games.

Wells-Gardner stock has reflected that notion, rising from 3½ a share in January to 7¼ on July 7. As more states legalize casino gambling and lotteries, Wells-Gardner, which already controls 75% of the video-monitor market, will continue to prosper, according to LaLoggia.

In the red by 39¢ a share last year, Wells-Gardner is expected to post earnings of 40¢ to 50¢ this year, he figures. Worth more than \$3 a share in working capital and with no debt, the company "is still a good bet in spite of its upward run," says LaLoggia, who thinks the move up to 7 "is a clear breakout from a very well-defined six-month consolidation pattern."

THE 1992 BUSINESS WEEK FORUM OF CHIEF FINANCIAL OFFICERS

ONLY TEN YEARS AGO, THE chief financial officer was pigeon-holed as the custodian of numbers. But in today's Byzantine global economy, competitive firms have learned to value the CFO as a major asset – a key player in designing corporate strategy.

The broadened dimensions of this executive role were the focus of the first annual *Business Week* Forum of Chief Financial Officers held recently. An influential group of senior business leaders, every one of them the CFO of a major North American company, accepted *Business Week's* invitation to this exclusive inaugural event. The Forum was held in San Diego, to coincide with the spectacular 28th defense of the America's Cup.

The CFO as Leader

Exactly how much has the CFO's role grown? Christopher J. Steffen, executive vice president and chief financial and administrative officer at Honeywell, Inc., cites a recent study reporting that 70% of CFOs participate in strategic decision-making; 60% sit on their company's board; and over 50% are active in non-financial activities involving the CEO.

Eugene R. Beard, executive vice president for finance and operations at The Interpublic Group of Companies, Inc., defines today's model CFO as "a leader who commands the respect of both the board of directors and people on the line. To offer judgments that protect the best interests of the company, the CFO must be independent. The CFO must also be a strategist with a view beyond daily operations and quarterly earnings. And finally, the CFO must be a business person. An accountant's perspective is not enough."

Steffen agrees, adding, "A successful CFO has the experiences and skills required of a CEO. Indeed, that is why the CFO position is now perceived as ideal preparation for the CEO's job."

Maximizing Assets

More than the company's financial eyes and ears, the CFO is focused on *maximization of corporate assets*

BUILDING THE FUTURE OF CORPORATE VALUE

The CFO as Architect

BY BARBARA H. PETERS AND JAMES PETERS



of every description. And today's corporations have myriad assets that never appear on an accountant's balance sheet.

One of the most critical of these is *information*. "With pressures to streamline operations, to enter new markets, and to deploy new customer-sensitive products and services, companies can't rely solely on historical accounting information," says Thomas Kelly, managing director, Western region, Arthur Andersen. "Companies are encouraging CFOs to enlarge their responsibilities by managing time-critical information – strategic information that must be immediately accessible to decisionmakers."

As real-time data becomes a key source of competitive advantage, astute CFOs are becoming directly involved in monitoring and leveraging the benefits of revolutionary new information technologies. "Today's powerful open systems make it possible to spread critical information across the organization. This delivers a huge impact," says Jeffrey Henley, executive vice president and CFO of Oracle Corporation. "The shift to open systems saves a lot of money, increases productivity, builds a stronger knowledge base, improves decision-making, and empowers the workers who truly drive the business."

Dr. Edward Staiano, president and general manager of Motorola Inc.'s General Systems Sector, is familiar with these advantages. Manufacturing and marketing products like cellular telephones and computers, his is one of the most demanding of all businesses. Nearly 70% of his group's more than \$3 billion annual sales are foreign, and Motorola's competitors include the elite of the Japanese electronics industry. In addition, the industry faces an average selling price that drops about 35% annually.

"To grow sales revenues and, at the same time, decrease the cost of product faster than 35% per year, we attack every item on our P&L," Staiano says. Information systems were an obvious target when, three years ago, he realized that approximately 3% of sales – \$90 million –

THE 1992 BUSINESS WEEK FORUM OF CHIEF FINANCIAL OFFICERS

went into MIS operations. "I determined that it was time to exit expensive mainframes and move into the more cost-effective open systems. Today, about 70% of the business's processing, including all its mission-critical activities, is done on Unix-distributed platforms." Staiano reduced MIS staff by 55%, and MIS costs have been reduced to 1.4% of sales – a \$45 million savings that Staiano stashes into "my competitive advantage line, money I spend enhancing our competitiveness."

Building Shareholder Value

Besides enhancing competitiveness, saving \$45 million is a striking way to *enhance shareholder value* – still the guiding principle of most CFOs.

Take Charles Duddles, executive vice president and CFO of Foodmaker, Inc., operator of Jack-in-the-Box and other food chains. Since 1985, Duddles has twice deleveraged his company and twice taken it public, most recently engaging in some financial engineering to reduce the company's annual interest costs from \$90 million to \$50 million. Says Duddles, "There is always opportunity for the CFO who routinely monitors the swings of the financial market."

"It's true that Wall Street is always staging its fashion show," says Errol Glasser, managing director at Kidder Peabody. "In the 1980s, highly leveraged transactions were the rage. Inevitably, the financing focus shifted to the equity side of the balance sheet, and 'deleveraging' became the order of the day. And today, high-yield debt is back in style, albeit on a more conservative basis."

Too often in the last decade, companies turned to a hot product, particularly debt, and used it whether it was appropriate for their capitalization or not.

"Many companies structured themselves around the type of financing they could obtain, claiming it was the *only* source of funding. But with an open mind and a little creativity, CFOs can find the *appropriate* funding to fit *their* company's unique market position, cash flow, and cap structure." Glasser's advice: "Start with your own objectives and then look at the whole range of available vehicles. Don't fall into a trap where the financial tail wags the corporate dog."

Borderless Enterprises

Innovative American CFOs are also studying new foreign trade and investment opportunities as ways of building corporate value. In addition to the general economic burgeoning abroad and the special opportunities inherent in the collapse of communism, the foreign sphere also offers a hedge against possible continued slow growth in the US.

"In our interconnected world economy, analyses limited to industrial countries ignore the significant growth occurring in the developing world," says David Wyss, research director of DRI/McGraw-Hill. "Although the G7 countries will see import growth in the 5-6% range in 1992," predicts Wyss, "the big news will come from Latin America, Southeast Asia, and



"With today's powerful open systems, you can spread information across the firm to empower the workers who truly drive your business."

*Jeffrey Henley,
executive vice
president and CFO,
Oracle Corporation*



"We have saved \$45 million by reducing MIS costs. That money goes straight to my 'competitive advantage line.'"

*Dr. Edward Staiano,
president and general
manager, General
Systems Sector,
Motorola Inc.*



"Don't fall into a trap where the financial tail wags the corporate dog; look at your objectives and the whole range of options."

*Errol Glasser,
managing director,
Kidder Peabody*

the Middle East, where double-digit growth is likely."

Eastern Europe is an area of potentially great opportunity, although caution is still the watchword for most American firms. James Mohn, finance manager of GE Lighting Worldwide and a member of the board of Tungsram Co., Ltd., in Hungary, believes GE made a smart move when it purchased Tungsram from the Hungarian state for \$300 million in early 1990. "It is a good fit for GE since we want a stronger European presence." Tungsram has a 7% market share in Western Europe, a broad product line, and good technology. "Most important, the people in Hungary have solid technical skills and are eager to learn new methods."

In discussing opportunities abroad, CFOs at the *Business Week* Forum expressed the concern that recovery here in the US may be weak and brief. Professor Paul Krugman of MIT urged the gathered executives to do their part by addressing the problem of slow growth in worker productivity – a key problem in securing the return to national economic growth. Dr. Krugman pointed out that the productivity of American workers grew less than 1% in the 1980s – far below the rate experienced by firms in Western Europe and East Asia.

The American Challenge

Improving productivity, however, requires more than company-by-company quality efforts. Contributing factors to low productivity growth include poverty, poor income distribution, and the weakness of education. Unaddressed, Dr. Krugman says, these problems will threaten the competitiveness of American firms – and the US economy – for years.

Citing another threat to US corporations, William Seidman, former chairman of the Federal Deposit Insurance Corporation, delivered a sobering indictment of government debt, saying that "deficits are absorbing capital that could be used to increase our productivity. If we insist on drawing more out of the US Treasury than we put in, we will seriously erode our children's future."

Jerry Sterner, the former real estate executive who wrote *Other People's Money*, said, "We must remember that we aren't just CFOs; we are citizens sharing a world with many people who are at risk. If we ask the right questions, perhaps together we can shape answers that make sense for all of us."

The applause Sterner received indicates that while there are many views on how to frame the questions, and differing perspectives on where the corporate role should begin and end, the CFOs at the 1992 *Business Week* Forum of Chief Financial Officers understand that their role demands leadership in the broadest sense. And that their financial leadership is essential not only to building corporate value but also to charting a course that ensures a vibrant national and global economy. ■

Barbara H. Peters and James Peters are New York based business writers.

A FAST MOVER AMONG FAST HORSES

Dee Hubbard is adding closed-circuit TV and golf to his tracks



Hey, Dee Hubbard, you're 57 years old, boast homes in three cities, sport an 18 handicap in golf, and you've got at least \$150 million in the bank. What are you going to do next?

No, he's not going to Disney World. Randall D. Hubbard has better things to do since selling AFG Industries Inc., his glass company, to Japan's Asahi Glass Co. for roughly \$1 billion in mid-June. His own stake fetched some \$35 million. The onetime auto-glass salesman, who in 14 years built AFG into a \$379 million-a-year company, is trying to make another fortune while helping revive Thoroughbred horse racing in the U.S.

SHAKE 'EM UP. Hubbard is no newcomer to the sport of kings. Long the half-owner of a 235-acre spread in Kentucky, he has successfully bred both quarter horses and Thoroughbreds. But since the late 1980s, Hubbard has been less involved in horses than in the tracks they run on. The Western U.S. is dotted with tracks he owns outright or with partners, including his top prize so far, venerable Hollywood Park in

Los Angeles, which he won control of last year after a nasty three-month proxy fight. The string of acquisitions, which cost him some \$50 million, has helped snap the sport out of its doldrums.

"He's a fast mover, someone you have to keep your eye on," says Clifford Goodrich, president of crosstown rival Santa Anita Park. "We'd all like to see the same success he had with the glass industry." That hasn't happened yet. His introduction of simulcasting—closed-circuit race telecasts beamed from one track to one or more others—helped save Ruidoso

Downs, the New Mexico track that he and a partner bought in 1988. But while a \$20 million overhaul and flashy new advertisements have boosted Hollywood Park's attendance by 4%, overall betting is running just behind last year's pace.

Hubbard isn't too worried—he sees other ways to make money at the 335-acre Hollywood Park complex. He wants to put space now idle to work by spending \$100 million to build a 16,000-seat

music theater and a driving range at the downs. And he's trying to convert the four-year-old Cary Grant Pavilion named for one of Hollywood Park's most famous railbirds, into upscale restaurants and a card club. The space is so little used now that track wags call it Grant's Tomb.

That ambitious program isn't universally popular. Many of the park's trainers complain that the card club, which needs voter approval in November, would siphon gambling action away from the ponies. "There are always going to be people who don't like to change," says Hubbard with a shrug. "What I see is a horse track where there is more money to be made."

THE RACING CHANNEL? And squeezing more cash out of the track is the name of the game. Hence simulcasting. From 1986 to 1990, nationwide betting from off-track sites soared 86%, to \$4.1 billion while on-track wagering fell 36%, to \$6.1 billion, according to the Association of Racing Commissioners International. Thanks to an impressive jump in the off-track-betting handle, Hollywood's first-quarter revenues tripled to \$5.8 million over the year earlier. Hollywood rakes in about 6% of the amount bet at the tracks that show its races.

That's just the start, according to Hubbard. He envisions the park, home to such prestigious races as the \$1 million Hollywood Gold Cup, as the ideal hub of a racing network. Already, three of Hubbard's other tracks show closed-circuit telecasts of Hollywood Park races. And he wants to go international, beaming the signal to horse-happy bettors in Hong Kong and Japan. The ultimate goal: a first-ever national link regularly showing major races from tracks around the country.

Now, the network is heading East. A Hubbard-led group that includes Hollywood Park and several rich Texans is among four contenders to build a major Thoroughbred track in Texas. Hubbard is also lobbying Kansas legislators to allow simulcasting there.

Hubbard predicts a flood of new revenues into his tracks, followed closely by increased purses and better horses. And higher betting handles, he figures, might save a few smaller tracks from closing down. But the big winner would be a one-time glass salesman who would rather not risk his millions at the betting window.

By Ronald Grover in Los Angeles

HUBBARD'S HOLDINGS	
TRACK LOCATION	SIZE OF STAKE
HOLLYWOOD PARK Los Angeles	16
MIDPOINTE RACING* Grand Prairie, Tex.	24
MULTNOMAH KENNEL CLUB Portland, Ore.	100
RUIDOSO DOWNS Ruidoso, N.M.	60
THE WOODLANDS Kansas City, Kan.	60



CEO ROACH AT A TANDY COMPUTER CITY STORE: "FIRST AND FOREMOST, WE'RE A RETAILER"

THINKING BIG—VERY BIG—AT TANDY

Will massive electronics outlets give sales the kick they need?

When Tandy Corp. was searching for products to supplement the electronic gadgets its Radio Shack stores sold in the mid-1970s, Radio Shack executive John V. Roach persuaded then-CEO Charles D. Tandy to build personal computers. Only the second major company to offer a PC, Tandy turned out the hugely popular TRS-80 and Roach became a hero. Fifteen years later, Tandy's share of the PC market is under 5%, Radio Shack sales are in a slump, and Roach, now CEO himself, must come up with another daring stroke to end a three-year profit slide. His call to arms? Back to electronics retailing!

"The computer was a great thing that happened to Tandy. But it was also the product that ate the company," says Matthew D. Upchurch, grandson of founder Charles Tandy, whose family is Tandy's largest noninstitutional shareholder. "There was so much focus put on computer manufacturing that Tandy lost sight of its roots: that it's a retailer." Or as Roach puts it: "First and foremost, we're a retailer."

The company is not abandoning Tandy brand computers, which accounted for

24% of fiscal 1991's \$4.67 billion in revenues. But it is treating them as just one category in an array of consumer electronics. The new PC strategy emphasizes Tandy's role as a retailer as well as a manufacturer, and that means moving



the Tandy machines into new distribution channels where, for the first time, they must compete with other brands. To kick off the new strategy Roach is opening Computer City SuperCenters, a chain of superstores with huge PC selections and cut-rate prices.

Pioneered by rivals CompUSA and Micro Center, superstores are the fastest-growing segment of PC retailing. Roach plans to open over 40 SuperCenters by 1994 and has opened 13 in the past eight months. He says most of these are already profitable and figures the chain could generate \$1 billion in sales within five years. "If they continue to roll out stores at the rate they are now, that is certainly doable," says Eugene Glazer of Dean Witter Reynolds Inc.

MINI-MALL EXPOSURE. Roach isn't stopping at mere superstores. This fall, Tandy plans to unveil the mother of all electronics emporiums: Incredible Universe, a mini-mall the size of three football fields complete with karaoke contests, child care facilities, restaurants, and paper recycling centers. Customers can choose from 10 computer brands besides Tandy, 300 kinds of TV sets, 90 models of videocassette recorders, and 40,000 audio and video titles. "If it's not in Incredible Universe, it doesn't exist," Roach boasts. The first two will open in Arlington, Tex., and near Portland, Ore.

Products galore won't assure success, however. Incredible Universe must move incredible volume—some \$100 million annually per store—to turn a profit, estimates analyst Walter F. Loeb of Loeb Associates Inc. To pull it off, Tandy must offer the lowest prices. That means keeping a relentless eye on costs. Purchasing clout and economies of scale will help. Roach is also counting on new concepts in inventory controls. But rivals are skeptical. "We've done the financial modeling on it. I don't see any way to get the costs down" enough to price competitively, says Richard M. Schulze, head of the Best Buy Co. superstores.

Tandy can ill afford money-losing ventures at this point. Same-store sales at its McDuff discount chain, purchased in 1985, were off 10% in Tandy's fiscal third quarter. And analysts expect the company as a whole to report a 3.5% profit drop for fiscal 1992, ended June 30, to \$188.9 million on flat sales of \$4.6 billion. That will make three consecutive years of lower earnings, down from \$323.5 million in 1989 (chart). The decline corresponds with a slide in both Radio Shack sales and Tandy's PC market share. The stock has been trading recently at around 24, down from a record high of 64½ in mid-1983.

To finance Tandy's new ventures,

Roach must continue to pay close attention to Radio Shack, its most reliable earner, which accounts for more than 60% of total revenues and the bulk of profits. But the chain has its own problems. The country is blanketed with 7,000 Radio Shacks, leaving little room to expand, and the stores suffer from an image as cluttered hobbyists' shops.

Roach continuously tinkers with the Radio Shack format in an effort to re-boot the business. In the 1980s, for example, he broke out a separate set of Radio Shack computer centers, then closed them last year. Now he's refocusing marketing efforts on core products, such as batteries and computer cables. By making battery displays more visible to the customer in January, Radio Shack hiked sales of these high-margin products by 20% over 1991. Thanks to such tinkering, the chain has had six consecutive months of same-store sales gains.

PC ROMANCE. Roach, 53, must still come up with a winning strategy for his baby, the PC business. Tandy never cracked the important corporate market, and in the home market, once its stronghold, Tandy is losing out to such low-priced brands as Packard Bell and Gateway 2000. Tandy "began to think of itself as a world technology genius" in the 1980s, says analyst Otis Bradley of Gilford Securities Inc., but the company rarely led in either technology or price. As a result, Tandy's share of the U.S. PC market eroded to 4.62% in 1991 from 7.51% in 1986, according to Dataquest Inc.

Roach concedes that the PC pulled the company off track in the 1980s. It was such a rapid-growth vehicle for Tandy, he says, that "it was difficult to focus on many other things." Still, he insists it was the right direction at the time, and his romance with computers continues.

Roach is betting Tandy's PC future on pen-based computers, courtesy of innovative GRID Systems Corp., the Silicon Valley laptop-computer maker Tandy bought in 1988. GRID was the first company to sell a pen-based notebook computer that recognizes printed handwriting, and recently introduced a wristband pen-based computer. Tandy is also emphasizing multimedia computing and this fall is expected to offer enhanced multimedia systems.

Both multimedia and pen-based computers are targeted for the consumer market, and Tandy is counting on consumers walking into an Incredible Universe or a Computer City to buy them. Which is precisely why Tandy's retailing strategy is also its PC strategy. Now, Roach has to lure customers to both stores and PCs.

By Stephanie Anderson Forest in Fort Worth, with bureau reports

BIT BY BIT, SOFTWARE PROTECTION IS ERODING

Recent court decisions lean toward narrow copyright rulings

For those who follow the fickle field of software copyright law, the decision was a shocker. On June 23, the prestigious Second Circuit Court of Appeals in New York handed down a ruling that retreated sharply from earlier decisions in other courts. The judge in *Computer Associates vs. Altai* flatly rejected *Whelan vs. Jaslow*, a widely cited 1986 ruling by Philadelphia's Third Circuit that held that copyrights protect both the basic structure of a computer program and its lines of written code. Says New York copyright attorney Ronald Abramson: "Whelan was the

leading case on software copyrights."

No more, however. The Second Circuit ruled that a similar structure is not a copyright violation, perhaps bringing on a new era in software law. Legal experts cite the *Altai* case along with an accumulation of other recent decisions as evidence that the nation's judiciary may be narrowing software copyright protection. "The copyright law, with some of the decisions, has gone as far as it will go," says Gary M. Hoffman, a Washington lawyer specializing in copyrights and patents. "You'll see the courts backing up." If so, competition in



ACCOLADE'S MILLER REFUSED TO BUY A LICENSE FROM SEGA

A NEW DIRECTION FOR COPYRIGHTS?

EARLIER RULINGS SAID:

U.S. COURT OF APPEALS, THIRD CIRCUIT

The basic structure, or outline, of a computer program cannot be copied (*Whelan vs. Jaslow*, 1986)

U.S. DISTRICT COURT, BOSTON

Software makers can't copy screen layouts, menu sequences, and command organization (*Lotus vs. Paperback*, 1990)

BUT MORE RECENTLY:

U.S. COURT OF APPEALS, SECOND CIRCUIT

The basic structure of a program is not copyrightable (*Computer Associates vs. Altai*, 1992)

U.S. DISTRICT COURT, SAN FRANCISCO

Only specific screen elements are copyrightable, not overall "look and feel" (*Apple vs. Microsoft and Hewlett-Packard*, 1992)

DATA BW

his industry will probably increase as entrepreneurs feel legally safer.

It could also reduce the number of legal victories awarded to market leaders who now rush to court when rival programs seem to imitate their work. That has certainly been the practice of Lotus Development Corp., whose Lotus 1-2-3 is the world's best-selling spreadsheet. In 1990, Lotus sued Borland International Inc., charging it with illegally copying the commands, menus, and screen sequences of 1-2-3. Borland contends that 1-2-3 compatibility is just an optional feature in its Quattro Pro program. Some legal experts favor Lotus to win the case, set to go to trial in Boston in November, because it's being heard by the same judge who granted Lotus a 1990 victory in a similar suit against Paperback Software International.

FALSE ALARM? But the new Altai decision could sway the judge—at least that's Borland's hope. "A lot of the analysis of *Lotus vs. Paperback* has been rejected by this [Second Circuit] court," says Robert H. Kohn, Borland's general counsel. If he's right, the entrepreneurial nature of the U.S. software industry could be in danger, warns lawyer Henry B. Gutman, who represents Lotus. Thousands of programmers in corporate research departments from Armonk to Nagasaki would be granted a license to steal the work of those who innovate, Gutman predicts.

He needn't sound that alarm just yet. Despite the emerging trend to narrow protection, there are still some stark contradictions in the law (table), which means programmers and software executives must work in an ever-changing environment. Sometimes they're not even sure if what they are doing is legal, or still will be in a few months. "If you're a developer with integrity," says Mark L. Gordon, a lawyer with the Chicago firm of Gordon & Glickson, "the lack of knowledge of what's permissible means you tend to be conservative."

A prime example of this doubt is the case of *Sega vs. Accolade*. In April, the U.S. District Court in San Francisco issued a preliminary injunction at the request of Sega Enterprises Ltd. that pulled six of Accolade Inc.'s video games off the market and kept it from introducing eight more. Instead of signing up for an expensive license and manufacturing deal with Sega, Accolade "reverse-engineered" Sega's basic software to make its games run on Sega's machines. That involved making a temporary copy of Sega's machine software to study. The judge ruled that since the temporary copy infringed on Sega's copyrights, the final games did as well.

That ruling could make it harder to design everything from chips to computers, many of which depend on reverse-



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engineering of proprietary software in order to ensure compatibility. Consequently, industry members quickly took sides. Sun Microsystems Inc., Unisys Corp., and 11 law professors filed court briefs in defense of Accolade, arguing that such a precedent would stifle competition, while IBM and Apple Computer supported briefs on behalf of Sega. "This is about free access to emerging markets," says Accolade Chief Executive Alan R. Miller. Others see it differently. "There's plenty of competition," says Anthony Clapes, IBM senior corporate counsel whose company has a lot to lose if there are no restrictions on reverse-engineering. The dispute comes to a head July 20, when San Francisco's Ninth Circuit Court of Appeals hears the arguments.

STOLEN CODE. Computer Associates International Inc. is also looking to limit unauthorized copying. It is appealing part of the Altai decision and vows to take it all the way to the Supreme Court. The recent ruling was only a partial victory for Altai. The judge still found illegal an earlier version of Altai's program that was based on software code stolen by a former CA employee. Altai has already paid \$364,000 in damages on that charge. But CA says the rewritten version is also an infringement, because its basic structure is close to the original. On that count, CA lost.

Recent developments in the closely watched Apple "look and feel" case also signal a change in the legal climate. In April, a U.S. District Court in San Francisco dismissed the heart of Apple's four-year-old copyright infringement claims against Microsoft Corp. and Hewlett-Packard Co. (BW—Apr. 27). The judge, now reconsidering his ruling at Apple's request, found that only specific visual elements can be copyright-protected, not the overall screen appearance. The judge based his analysis, in part, on a case decided in April in San Francisco's Ninth Circuit Court. That ruling favored defendant Symantec Corp., rejecting the notion that the overall look of the screen must be considered. Plaintiff Brown Bag Software is asking the Supreme Court to hear the case.

Together, the Altai, Apple, and Brown Bag cases may portend the future. Says San Francisco attorney Ian N. Feinberg: "We're moving to narrower protection in general, but where we finally land is anybody's guess." In the meantime, software makers will probably increase their filings for patents, which offer more absolute protection than copyrights. Ultimately, the basic issues won't be sufficiently resolved until the U.S. Supreme Court makes a final ruling.

By Richard Brandt in San Francisco, with Evan I. Schwartz and Michele Galen in New York

Science & Technology

MEDICINE

FINALLY, A HEALTHY INTEREST IN WOMEN

Now, researchers are focusing on their unique medical problems

Each year in the U.S., some 500,000 people suffer swelling in the joints and glands and other telltale signs of the sometimes-fatal immunological disease called systemic lupus erythematosus. About 90% of these victims are women, more than half of childbearing age. Yet many don't know they have the illness. And doctors don't know what causes it, nor do they understand why it attacks women mainly and strikes black women three times as often as white.

Until two years ago, in fact, no one was even trying to answer these ques-

Through the ORWH, the NIH is pushing health centers, particularly its various institutes, to include women in clinical trials for medicines, to start work on diseases that afflict women only, and to study whether maladies such as heart disease, AIDS, and cancer affect women differently than they do men. "Medical research is starting to shift toward women's health issues," says Joan Kuriansky, who chairs the Campaign for Women's Health, a Washington, D.C. advocacy group.

In fact, the NIH's focus is fueling "ar-



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tions. Then, researchers at the National Institute of Arthritis & Musculoskeletal & Skin Diseases in Bethesda, Md., took action. In 1991, they started distributing information about the disease to black women and launched studies to determine what causes the disease.

As the efforts to unravel this mystery show, women's health issues are becoming a priority after decades on the back burner. Until recently, most new drugs were tested mainly on men, and a disproportionate number were aimed at men. Then in 1990, a General Accounting Office study put the blame on the National Institutes of Health, the nation's premier medical research and development body. That year, the NIH launched the Office of Research on Women's Health (ORWH). And it gained an important patron when Dr. Bernadine P. Healy became NIH director in April, 1991.

explosion of interest from drug companies," says Dr. Florence P. Haseltine, founding president of the Society for Advancement of Women's Health Research. In the past year, Wyeth-Ayerst, Sandoz Pharmaceuticals, and Pfizer among others, have set up female health care research departments. As of last December, says the Pharmaceutical Manufacturers Assn. (PMA), there were 263 medicines in development for women at 79 drug companies. The lure for drug makers: Lucrative markets that should develop as millions of female baby boomers encounter fertility problems then reach middle age and menopause.

MICE AND MEN. It will nonetheless take years to compensate for decades of neglect. Women are 52% of the U.S. population and face similar risk for many of the killers that hit men. But until now research on such key problems as heart

disease, lung cancer, and the effects of smoking—and on drugs to treat them—as been done mostly on mice and men, middle-aged white males at that. Researchers excluded women by arguing that pregnancy and women's fluctuating hormone levels could skew their results.

That's a risky oversight. Recent studies suggest that chemical differences between men and women create distinctions in their ability to absorb and metabolize up to 30% of all drugs. Women have more body fat than men, so some drugs may linger in their systems longer. The changes in hormone levels during the menstrual cycle also affect the behavior of drugs. These differences, says Dr. Lionel Edwards, chairman of the special populations committee of the PMA, can affect a drug's appropriateness and dosage. Without the right data, doctors can't tailor treatments for women.

AIR SHARE. Such is the case with coronary heart disease. Women typically develop it 10 years later than men, and scientists have long interpreted this delay to mean that women are less affected by it. So, most prevention strategies and treatments for heart attacks are derived from research on men, including a landmark aspirin study financed by the NIH, conducted by the National Heart, Lung & Blood Institute in 1981 on 22,000 male physicians, it found that men who took an aspirin every other day lowered their heart attack risk. But since women weren't included, researchers didn't know whether aspirin helps, harms, or has no effect on them.

That exclusion outraged women when it was cited in the AO report. In 1989, the Congressional Caucus for Women's Issues urged the GAO to investigate whether the NIH discriminated against women in medical research. The GAO found that women weren't included in research and prodded the NIH to set up the ORWH. Since then, AIDS and cancer activists have joined in advocating that research on women's maladies should get more dollars.

Companies have reacted quickly. High on their lists are drugs to treat hot flashes caused by menopause, hypertension, congestive heart failure, osteoporosis, and breast, cervical, lung, and ovarian cancer. Since 1991, Sandoz Pharmaceuticals Corp. has stepped up its research on postmenopausal osteoporosis,

the bone loss that affects 25 million U.S. women. "We are not only looking at drugs or treatment, but at a new delivery system," says Dr. Donnica L. Moore, associate director of the Sandoz Medical Education Center. Osteoporosis sufferers now take Sandoz' Miacalcin by injection, but Sandoz is testing a more convenient aerosol nasal spray. At Warner-Lambert Co., which has 21 compounds for women in development, reproductive biology is a top priority.

funding to make sure they include more women in their studies or provide a rationale for not doing so. It also is asking researchers to evaluate how drugs behave differently in men and women.

Last year, the NIH made cardiovascular diseases, osteoporosis, and cancer its top priorities, and the agency boosted research on women in all three areas. Already, one new program promises insights in preventing lung cancer, the No. 1 cancer killer of women. One finding—that more girls than boys start smoking in their teens—suggests that prevention efforts need to focus more on girls.

The NIH is also putting more muscle behind research on AIDS in women. The disease is spreading faster among women than men, according to the Centers for Disease Control, but until last year most AIDS research was done on young, white males. To redress the oversight, the NIH will spend \$120 million for research on AIDS in women in fiscal 1993, up 56% since 1990.

GUARDIANS. These funds will help finance studies at the National Institute of Allergy & Infectious Diseases, an NIH affiliate. One will examine the effect of AIDS on 500 pregnant women and their offspring. Another, a five-year effort, will examine how the AIDS infection manifests itself in 2,500 HIV-positive women. Of great concern is the relationship of the infection to women's disorders. Early findings show that HIV-infected women have higher rates of abnormal pap smears and cancer of the cervix, and they react differently to sexually transmitted diseases.

The new priorities are tentative, so far. "In an ideal world, our office should not exist," says Dr. Vivian W. Pinn, director of the NIH's ORWH. "But we have to be there to make sure that the other NIH institutes and affiliates are spending money on women's research."

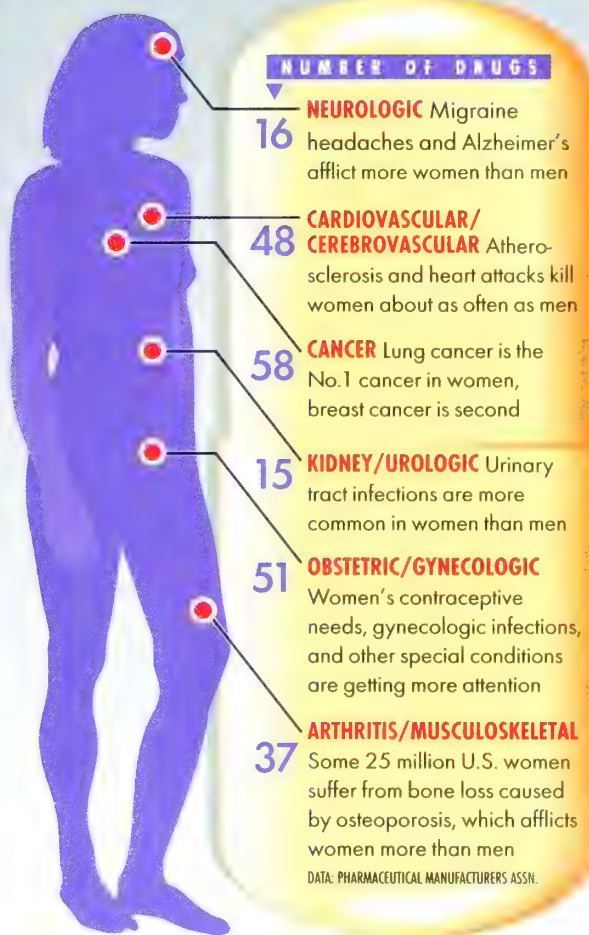
And Congress has yet to give statutory authority to the ORWH, as the Women's Congressional Caucus has demanded. Unless this happens, advocates fear that women's concerns won't remain front and center at the NIH.

That would be too bad. It seems all too obvious that when it comes to doing medical research and developing drugs, women shouldn't be thought of as the same as men.

By Sunita Wadekar Bhargava in New York

TARGETING WOMEN IN DRUG RESEARCH

Metabolic differences between men and women cause drugs to react differently in each, yet most drugs on the market haven't been tested on women. Now, drugmakers are shifting their approach. Here's a list of key medical problems for women, with the number of drugs either being tested for use in women or tested in trials that include women



The NIH, meanwhile, has set an even more ambitious—and controversial—agenda. Its Women's Health Initiative, launched last year, is a \$500 million, 10-year plan to study 150,000 postmenopausal women to determine how diet, exercise, and hormone therapy might prevent cardiovascular disease, cancer, and osteoporosis. One trial will examine whether a low-fat diet helps prevent breast cancer and heart disease. The NIH also will screen applicants for

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Tim and Pat Langan didn't really expect to move to

Alabama when they came here for Tim's interview with the Alabama Shakespeare Festival. "But we saw the best production of Chekhov ever, and made up our minds at intermission," Tim says. "We felt that working with a theater that draws from all over the nation, even 64 foreign countries, would be an excellent opportunity. And I've never seen such strong community support for a theater." The Langans, who have a six-year-old son and a 16-year-old daughter, say that the move from Rhode Island to Alabama has Given us our family back... the family unit is more together here, and people know how to relax and enjoy themselves.

"We expected Shakespeare to be performed with a Southern accent!"

Tim Langan,
Managing Director
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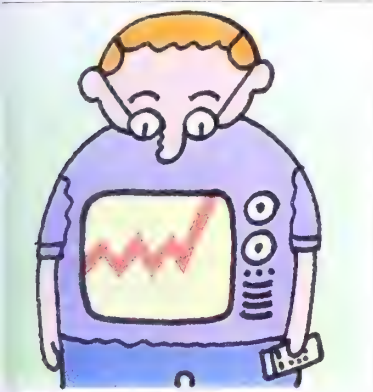
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Developments to Watch

EDITED BY EMILY T. SMITH

A HIDDEN HAZARD OF THE IDIOT BOX



Couch potatoes of America, tune in! The latest medical research confirms what you probably already suspected: that too much time in front of the tube may be hazardous to your health. A recent report published in the *American Journal of Health Promotion* indicates that frequent television viewing is linked to hypercholesterolemia,

more commonly known as high serum cholesterol.

AJHP researchers studied a group of nearly 12,000 employed adults and they found that TV hounds who watch three or more hours a day face nearly twice the risk of developing high cholesterol as those who watch less than one hour daily. Adults who watch one to two hours per day were 1.5 times as likely to suffer from high cholesterol. TV per se isn't the main culprit, of course. The researchers suggest that the real danger lies in the passivity of this pastime: Each sedentary hour glued to the tube is one less hour devoted to physical activity. TV watching also seems to foster the consumption of large quantities of snack foods.

AM JOE'S LUNG—LIVE ON VIDEO

So far in this century, medical science has produced X-rays, CT scans, and magnetic-resonance imaging—all of which let doctors peer inside the body to gauge the effects of illness and injury. But these systems also expose the body to potentially harmful radiation. That's why there's plenty of interest in a new technology: the Adaptive Current Tomograph (ACT).

Developed at the Rensselaer Polytechnic Institute in Troy, N.Y., the ACT passes a low-frequency electrical current through the body. Depending on their condition, organs show varying degrees of resistance to the current, and a computer uses the data to generate a video image of the organ in question. A normal air-filled lung, for instance, resists electricity and will appear as a bright image. A sick, fluid-filled lung is less resistant and appears dark on the screen. Because the image is live, hospitals can easily monitor patients around the clock. ACT's capability for such monitoring and its relatively low cost—about \$50,000, vs. \$1 million for a CT scan—could make it a welcome addition to imaging technology. The RPI team hopes to begin clinical trials by year's end.

THE BIG BLAST THAT'S COOLING OFF THE EARTH

For all the fear of global warming, all it takes is one good volcano to put a temporary chill on the earth. After Mt. Pinatubo's eruption in the Philippines on June 16, 1991, scientists predicted that the planet's temperature would drop. Now, researchers at the National Oceanic & Atmospheric Administration have shown that the predictions were correct. Measure-

ments made by NOAA observatories in Hawaii reveal that the amount of light and heat from the sun reaching the ground has dropped nearly 4%. Satellite readings show that air temperatures over the globe have fallen by 1F—and continue to drop. The cooling may eventually reach 2F.

The culprit in this big chill is 20 megatons of sulfur dioxide spewed skyward by Pinatubo. Some 15 miles above the earth, the gas combined with water to form tiny sulphuric acid droplets. The droplets reflect solar radiation, reducing the amount of heat from the sun, and will remain in the atmosphere for up to three years. Because the planet takes a long time to warm or cool, says NOAA meteorologist Ellsworth Dutton, "the cooling effect could last for five years."

THE LAYERED LOOK WORKS FOR SUPERCONDUCTORS, TOO

When scientists discovered "warm" superconductors in 1986, the resulting hoopla made it seem that exotica such as resistance-free power lines were just around the corner. But the new materials, which conduct electricity without resistance at -300F, proved fiendishly difficult to work with. Superconducting wires, for example, turned out to be hard to keep cool and easy to break. So researchers at Los Alamos National Laboratory in New Mexico set out to build a better wire. Instead of filling up a tube with superconducting ceramic material to make a wire, they packed the superconductor around the outside of a tube, leaving the core hollow. Then they inserted the whole thing into a larger tube.

The resulting multilayered wire has a number of advantages: It's easier to keep cool, sturdier than other superconducting wire, less sensitive to magnetic fields, and can carry larger currents. So far, "we've made about 15 feet of wire," says Dean Peterson, leader of Los Alamos' Superconductivity Technology Center. "But we think we can make miles and miles of it." The lab hopes to work with U.S. companies to develop the wire.

FISHING FOR A WAY TO KEEP PIPELINES FROM FREEZING

Sometimes, nature can solve industrial problems. Increasingly, gas companies move their product through pipelines in which the gas is mixed with water, then separated later. But in winter, hydrates, a form of ice, can clog these arteries.

The solution, say scientists at British Petroleum Co.'s research center at Sunbury, Britain, is to take a cue from fish who live in the frigid waters of the Antarctic and avoid icing up by producing so-called antifreeze chemicals. The researchers created chemicals similar to those found in the fish and made their own antifreeze, and it has kept pipelines clear in tests at BP's North Sea gas operations. The fish-based variety is cheaper than other antifreezes. Methanol or glycol can keep pipelines unclogged but only in concentrations of up to 15% of the water in the line. The new ice inhibitor works at a level of just 400 parts per million, small enough to generate significant savings.



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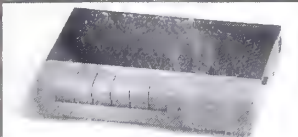


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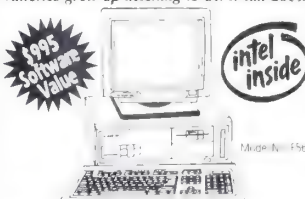
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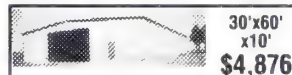
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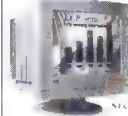
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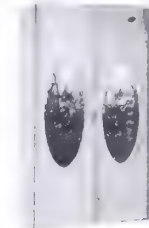
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EDITED BY AMY DUNKIN

Finances

IT'S CHIC TO BE CHEAP: A PENNY-PINCHER'S PRIMER

Scrimp, scrimp, scrimp. That homely activity is Mary Hunt's *raison d'être*. A self-confessed credit junkie from Southern California ("It started with a Texaco card"), in 1982 Hunt found herself with \$100,000 in debts, an unemployed husband, and two babies. Hunt changed her life. When she landed a good job, she kept track of every dime she spent and worked the family's way back to financial health. Now, she and her husband co-manage an industrial real estate company, they're close to paying off what they still owe, and Hunt has become so competent at pinching pennies that she teaches others the fine art through *Cheapskate Month-*

ly, the newsletter she produces in her home.

Finally, Americans are recovering from a 20-year addiction to spending that has left many on the brink of financial peril. Three big shockers—the stock market crash of 1987, the nationwide real estate bust, and a recession that has permanently wiped out hundreds of thousands of jobs—have jolted consumers into realizing that they can't eat their Rolexes, let alone their houses. The lesson of the day, says Marc Eisenson, who publishes *The Banker's Secret Bulletin*, is that "in an effort to collect the most marbles, you could end up with none." Personal-finance commentator and author Jonathan Pond

agrees. "I'm calling the '90s the decade of fear," he says.

Of course, if enough people are scared witless, then being scared witless is "in." So, the generation that took conspicuous consumption to new heights is now making parsimony hip. Ostentation is more likely to draw a sneer than a stare of envy.

MORE BOOZE. In New York's cutting-edge beach resorts, it's suddenly passé to wear jewelry with your jeans. Wedding consultants report a trend toward smaller, quieter affairs—taking place on Sunday afternoons rather than on costlier Saturday nights. According to *American Demographics* magazine, the only item on which people age 35

to 44 spend significantly more now than three years ago is booze—presumably to kill the economic pain.

If vendors capitalized on the money-is-no-object ethos of the '80s, they're now realizing they can't ignore the radical chic in which less is more. Warehouse clubs and super discount chains are drawing more customers, even though retailers as a group face tough times. Consumers, especially middle-class families, have proved they'll put up with a little inconvenience to buy 20 chicken breasts for the price of three. So, businesses that give them an opportunity to save could find themselves with an edge.

Still, for most of the baby-

oom generation, belt-tightening seems almost unnatural. Parents and grandparents who lived through wars or depressions never took prosperity for granted, but the boomers believed there'd always be more, more, more. To help them do what they've never done with any seriousness before—save money—a host of cost-cutting experts has gone to the self-help business (take). If you don't think you can put away a couple hundred dollars a month, they proclaim, you're dead wrong. Furthermore, they offer terrifying predictions of what will happen if you continue your profligate ways. "Go down to the Golden Arches, put on a title cap, look in the mirror, and imagine yourself at 75," says Pond, whose pet cause is retirement planning.

Whether you're saving for old age or trying to pay off a dozen credit-card balances, the first step is to get a grip on your cash flow. That raises the burning question, to budget or not to budget? "To me, it's a dirty word, like diet," says Hunt. "It doesn't work." Eisenson thinks budgets are essentially irrelevant to saving money. "Any idiot can figure out that he can save \$300 a year by skipping his deluged danish and coffee in the morning," he scoffs.

But Larry Roth, who promotes *Living Cheap News*, thinks budgets can help solve an ancient mystery, "Where does money go?" Indeed, for people who can't figure out what happened to the \$100 they withdrew from the cash machine this morning, whipping out a pencil and going over the day will make it unpleasantly clear how much money is being wasted.

Reading your checkbook can be equally enlightening. Just when you pay \$1,000 a year for a health club membership, could you work off your tab in the park? Have you treated your spouse so badly at nothing less than a \$200 birthday present will do? How many pairs of back-to-school leakers can your 10-year-old wear at once? When the mostly voice of yuppie-dom

whispers, "But everybody else..." tell it to shut up. Also remember what the rich have known all along: Save enough on taxis, and you have airfare to Biarritz.

PAINLESS PROGRAM. A reasonable savings goal, say the superscrimpers, is 10% to 20% of your gross income. Your highest priority for that extra cash should be to pay down debt. In today's environment, "if you're leveraged even with a mortgage, you're buying money for more than you can

final cost could include more than \$7,000 in interest. (Hence the name of Eisenson's corporate venture, The Banker's Secret.) He sells a \$28 software program that helps you calculate how fast you can erase credit-card debt with regular or irregular additional payments, depending on what you owe and how much extra you can afford.

Similarly, prepaying a mortgage not only builds equity in your home faster but frees cash for other goals. Law-

your savings. Here, too, it pays to pinch pennies: The less you shell out in commissions, loads, and other expenses, the more money you have to grow. For example, if you already know a stock you want to buy, why go to a full-service broker when you can use a discount? In his savvy (but sometimes grammatically murky) book, *Scrooge Investing*, Mark Skousen lists 111 ways to slice costs off everything from stock purchases to insurance premiums.

The biggest mistake people make is in thinking that small savings can't make much of a difference. Jackie Iglehart, publisher of *The Penny Pincher*, became a proud miser when her husband lost his job at Siemens Medical Systems 18 months ago. Most of her money-saving techniques have to do with home economics—and they add up. Iglehart calculates that her \$129 electric breadmaker will save her \$500 a year. She keeps five chickens, who each lay about an egg a day. "People hear I save \$1,000 a month, and they're amazed," Iglehart says. "But it's easy."

DEEP PLEASURE. Sooner or later, tightwads will tell you, saving money becomes deeply pleasurable. They insist that thrift enhances rather than diminishes your quality of life. Vacationing off-season, you'll beat the tourist crowds; cooking from scratch, you'll eat healthier; buying used furniture and wearing old clothes, you'll achieve that coveted style called attitude.

No two people save money the same way, but everybody has a method. So it's fruitful to get others' ideas. Perusing the tightwad press, you'll not only learn how to spend less, you'll also laugh your head off. Some suggestions are revolting (re-use coffee grounds to make another pot; take more showers instead of buying deodorant). Others are absurd (buy a goat to mow your lawn; marry rich). Still, their earnestness can be inspiring. Remember, you're in the vanguard of a movement. It's cool to redeem empty soda cans.

Joan Warner

BEDSIDE READING FOR FRUGALITY FREAKS

BOOKS

Living Cheap: The Survival Guide for the Nineties
by Larry Roth (Ropubco, \$14.95)

1,001 Ways to Cut Your Expenses by Jonathan D. Pond
(Dell, \$8)

Personal Budget Planner by Eric P. Gelb (Career Advancement Center, \$19.95)

Scrooge Investing by Mark Skousen (Dearborn Financial Publishing, \$19.95)

NEWSLETTERS

Cheapskate Monthly (\$12.95 a year; 310 630-8845)

Living Cheap News (10 issues, \$12 a year; 408 257-1680)

The Penny Pincher (bimonthly; \$12 a year; 516 724-1868)

The Banker's Secret Bulletin (quarterly; \$19.95 a year; 914 758-140)

The Tightwad Gazette (monthly; \$12 a year; 207 524-7962)

DATA: BW



sell it for," says Roth, whose book and newsletter focus on real estate and urban lifestyles.

Eisenson, who specializes in debt management, points out that if you're carrying a \$2,000 credit-card balance and making only the minimum payment every month, you'll be paying off that \$2,000 for the next 33 years, and your

rence Hagemann, a manager for a Chicago company that makes subway-car doors, used another Eisenson program to prepay his mortgage so he'd be debt-free when his daughter matriculated as a college freshman. Hagemann says the process was practically painless.

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functions, such as paging, new designs, and longer battery life, which allows for more talking per charge, have added to their appeal.

HEFTY BARGAINS. In choosing a portable, stick with name brands such as Motorola, Fujitsu, Panasonic, NEC, Audiovox, Oki, Nokia, and Mitsubishi. Consider where and when you will use the phone. Do you want to carry it in the breast pocket of your jacket, your purse, your briefcase, or on your belt?

If size is an issue, Motorola's MicroTac models flip shut for the most compact package. But keep in mind that the smaller the phone, the bigger the price tag. The MicroTac Lite and NEC's P600 both weigh less than 8 ounces

and usually retail for upwards of \$1,000. The P600 looks more like a TV remote control than a phone, which NEC says makes it easier to hold.

For ease of dialing, Panasonic's PalmPhone (\$1,000) offers bigger-than-average keys and a large liquid-crystal display screen. And to help lighten your load, the Oki 900 (\$750) doubles as a pager. There are bargains on the heavier end of the scale: Audiovox's 10.5-ounce MVX500 runs about \$500.

Many manufacturers offer deluxe and basic versions of the same phone. At about \$850, Fujitsu's 9-ounce Stylist comes with a second battery, leather carrying case, and car cigarette-lighter adapter. The Pocket Commander—the same item without the accessories—costs \$795. But it often makes

sense to buy the deluxe model since most owners wind up purchasing a second battery for \$65 to \$85. Other popular add-ons include a rapid charger and a car adapter with an antenna and a hands-free speaker attachment.

SYSTEMS CHECK. It makes a difference where you purchase your phone. Most cities have two cellular systems and dealers are usually affiliated with one or the other. So before you buy, settle on the service that best fits your needs, based on monthly fees, per-minute charges, and coverage area.

All cellular quality is not the same, so ask friends who already own portable phones about the clarity of their service. That way, once you have your portable, you never have to rely on pay phones.

Lois Therrier



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Are you growing leery of the prolonged rally in bank stocks? If so, you might want to seek some safety in trust banks. They may not have the appeal of high-flying superregionals, but it's also the case that trust banks don't depend on the low interest rate environment that's driving most bank stocks these days.

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more than 18%, compared with 14% at many better-performing regional banks. And while shares in trust banks are hardly hot performers, analysts are betting that they will continue to climb, even if the ardor for bank stocks cools.

If that sounds enticing,

there are a few banks you can zero in on. High on analysts' lists is State Street Boston. With more than \$1 trillion in assets under custody and a vast data processing operation, State Street is the biggest and probably best-known trust bank.

Because there's little loan risk, the stock isn't cheap. State Street is trading at a stiff price-earnings ratio of 17.2, vs. 9.8 for the top 25 banks. But analyst John Heffern of Alex. Brown & Sons believes State Street will be a solid, steady performer for some time. The bank's earnings, he predicts, will rise 8% this year, to \$1.95 a share. He sees a further 10% gain in 1993.

Heffern forecasts even bigger profit gains for Chicago-based Northern Trust. He sees earnings rising 13% in 1992, to \$3.85, and 12% next year. And while Northern Trust has been a more active lender than State Street, bad loans account for less than 1% of its portfolio.

Another factor pushing Northern Trust's share price higher is a periodic rumor that the bank may be acquired. Says Advest analyst Frank Barkocy: "It's a clean, well-run institution and obviously a prize acquisition."

You might also want to take a look at U.S. Trust. Although much smaller than the other trust banks, the New York bank is relatively cheap, with a p-e of 11.9.

Keep in mind that investing in trust banks doesn't promise quick riches. But they're relatively safe and dependable. That's saying a lot, given the uncertainties facing many banks these days.

John Meehan

AN ANALYST'S TRUST BANK PICKS

	Bank share price on July 6, 1992	Price-earnings ratio*
STATE STREET BOSTON	36 7/8	17.2
NORTHERN TRUST	59	13.7
U. S. TRUST	48 3/4	11.9
TOP 25 BANKS		9.8

*Based on projected 1993 earnings
DATA: ALEX. BROWN & SONS INC.

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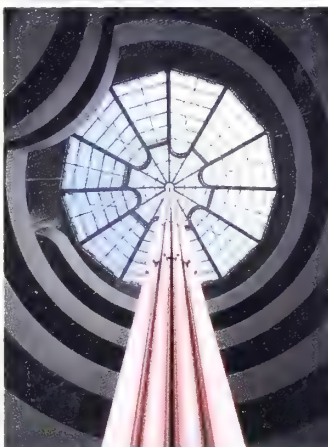
Learning Institution: BusinessWeek Advance

Travel

A FEW TASTY BITES OF THE BIG APPLE

In mid-July, the Democratic convention will add 40,000 visitors to Manhattan's crowds. So even people who can pay any price to get into *The Four Seasons* or *Guys and Dolls* may find themselves out of luck. But don't fret if the best-known attractions are thronged. Here's an insider's guide to alternatives:

DINING Without advance notice of a week or more, forget



NEWLY EXPANDED: THE GUGGENHEIM MUSEUM

the four-star French restaurants in midtown (Lutèce, Le Cirque, Le Bernardin). You might luck out in midweek at the newest addition to the list, **Bouley** (165 Duane St., 608-3852), downtown in Tribeca. If not, at three-star **Le Perigord** (405 E. 52nd, 755-6244), owner Georges Brigue makes everyone feel like royalty. A young chef from Lutèce reigns at the colorful, new **La Topiaire** (120 W. 45th, 819-1405) off Times Square.

To dine or drink and savor a great view of the area's hubbub, seek out **2 Times Square** in the new Ramada Renaissance Hotel (7th Ave. and 47th).



OFF-BROADWAY HIT: BLUE MAN GROUP'S ART AMUSES AUDIENCES OF ALL AGES WITHOUT A WORD BEING UTTERED

For Italian cuisine at moderate prices, a bright chef who was formerly with Spago serves up California-style fare at **Dolce** (60 E. 49th, 692-9292).

At **Trattoria dell'Arte** (900 7th Ave., 245-9800), the big anatomical artworks are amusing, the antipasto is bountiful.

If you favor Chinese, **Flower Drum** (856 2nd Ave., 697-4280) near the U.N. is less busy at dinner than at lunchtime. And in Chinatown's new Hotel Maria, **Pacifica** specializes in seafood, Hong Kong-style (138 Lafayette St., 941-4168). There's exotic luxury, too, at a much-praised new arrival, **Jewel of India** (15 W. 44th St., 869-5544).

Near Lincoln Center, **Cafe Luxembourg** (200 W. 70th, 873-7411) has lively crowds and brasserie-type cuisine. Fresh seafood and oceanside decor made **Fishin' Eddie** (73 W. 71st, 874-3474) an instant success when it opened last fall. This summer's lures for the young and trendy are downtown:



FAVORED CURRY: MIDTOWN'S JEWEL OF INDIA RESTAURANT

Boom, Félix, and Metro CC.

SHOWS If the SRO sign is up at *Crazy for You* and *Miss Saigon*, head Off-Broadway



CAMCORDER CITY: ELECTRONICS BUFFS MOB 47TH STREET PHOTO

to **Ruthless** (254-5076, \$37.50), a very funny musical that blends *Gypsy* with *The Bad Seed*. **Blue Man Group** (254-4370, \$35) is Off-Broadway's highly offbeat trio in blue-face. They mix slapstick with sophisticated pokes at avant-garde art and music to make audiences of all ages laugh.

To trim theater costs, many visitors line up at 3 p.m. daily at the **TKTS** booth on 47th St. in Times Square. It sells half-price tickets (cash only) to evening performances of nearly every show in town. You can beat the lines by using the mezzanine **TKTS** booth at No. 2 World Trade Center, which opens at 11 a.m. And a third-floor desk at **Bloomingdale's** on 59th St. sells same-day tickets to a select group of shows at 10% to 35% off, credit cards accepted.

SIGHTS If New York lifestyles seem too wild,

viewing some real wildlife can be calming. The modernized **Central Park Zoo** is open daily until 5 p.m. And all sorts of North American creatures inhabit a new 11-acre **Queen Zoo** (718 271-7761), just 2 minutes from Times Square via the No. 7 Flushing line.

A must for art-lovers is the expanded **Guggenheim** (5th Ave. and 89th St., 423-3500). Closed for three years, Frank Lloyd Wright's recently reopened masterpiece showcases 20th century art. Adults and kids alike will enjoy a different kind of museum: midtown's gleaming new **Museum of TV & Radio** (25 W. 52nd St. 621-6600).

DEALS No pool at your hotel? By showing an hotel room key, you can swim and work out—free—at the health club in the renovated **Sheraton Manhattan** (51st St. & 7th Ave., 581-3300). Midtown's best place to catch a movie is at the uncrowded six-screen **Worldwide** (50th St. west of 8th Ave.).

For good deals on stereos, camcorders and such, visitors pack **47th Street Photo** at 37 W. 47th St. But shopping is easier two blocks away at the 115 W. 45th St. branch. Both stores are closed Saturday, open Sunday. Or, at 15 Park Row near City Hall, **J&R** is a big discount store that's open every day.

Don Dun

Worth Noting

■ **BOND BUYS.** As interest rates dive to 3% or so on CDs and money market accounts, the tax-deferred "guaranteed minimum 6%" on Uncle Sam's EE savings bonds looks hugely attractive. But keep in mind that bonds must be held at least five years to earn that return. You can't redeem them in less than six months. Then they pay about 4.3% after one year, 4.6% after two, 5% after three, and 5.5% after four. You can invest up to \$15,000 a year.

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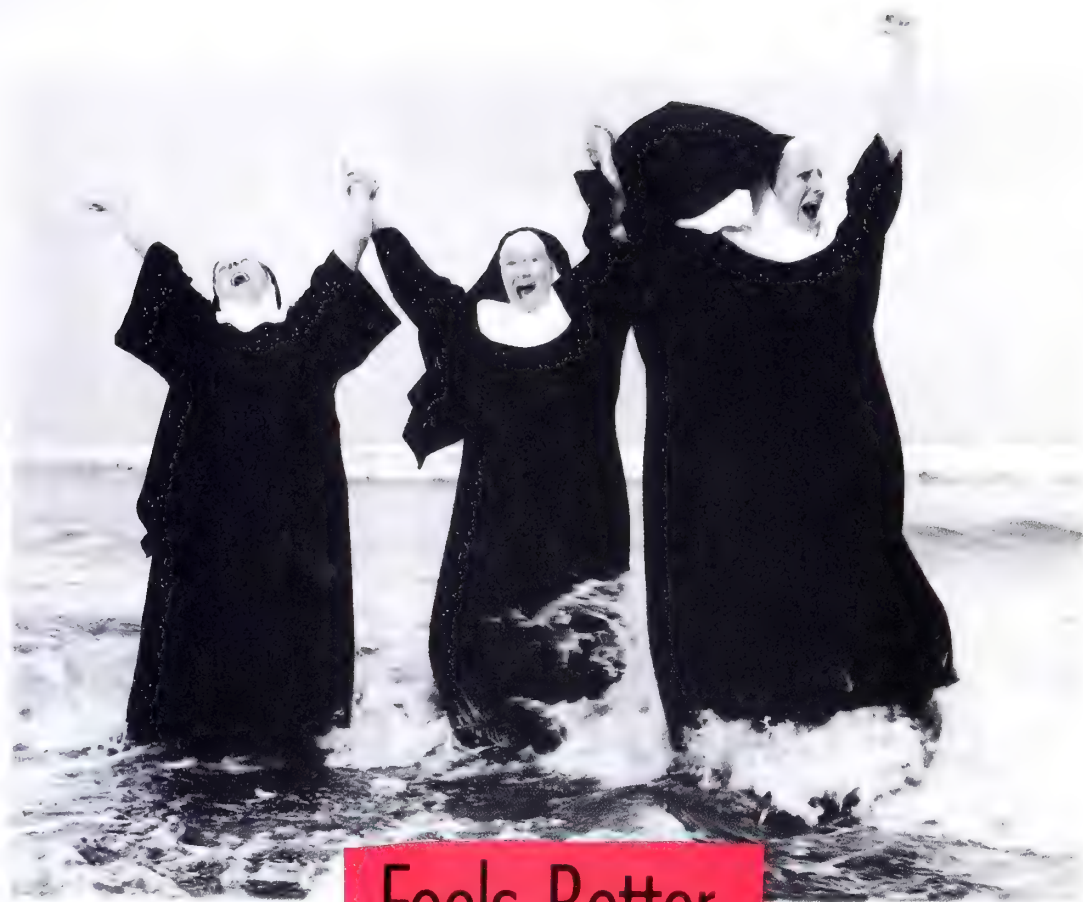


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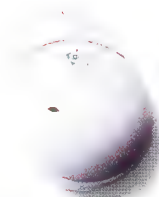


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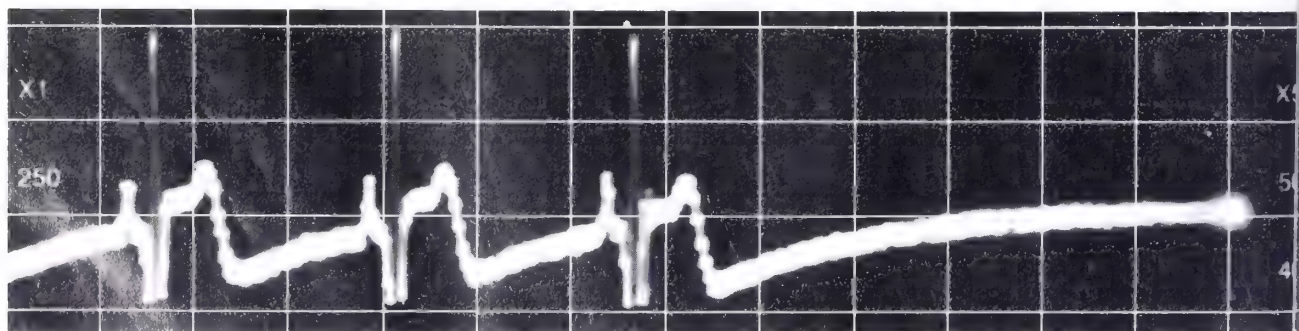
Left Handed



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UNFORTUNATELY, THE WAY TO A MAN'S HEART REALLY IS THROUGH HIS STOMACH.



While your cooking was supposed to help you win someone's heart, it may also help you destroy it.

Because a diet that's too high in fat may increase the risk of heart disease as well as certain kinds of cancer.

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For a free booklet on how to reduce the fat in your diet,

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Don't let yourself be counted among the thousands of people every year who literally eat their hearts out.

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A public service message from The Henry J. Kaiser Family Foundation

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This index gives the starting page for a story or feature on a significant reference to a company. Most companies are indexed under their own names. Companies listed only in tables are not included.

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another hug,
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chance.



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If you can't spot your company name in the lineup above, act now to help cancer patients fly in comfort and dignity. To join this elite squadron, call Corporate Angel Network at (914) 328-1313. You'll be giving a cancer patient the lift of a lifetime.

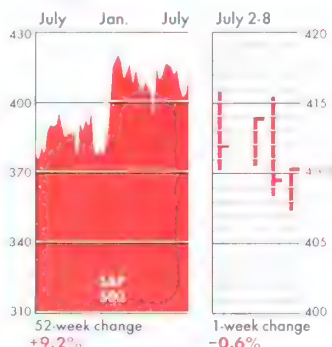
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Investment Figures of the Week

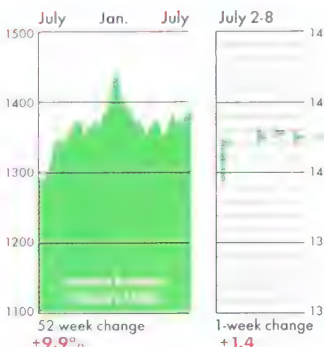
COMMENTARY

As the economy recovers, the Federal Reserve has raised short-term interest rates—again. Wall Streeters had a long holiday weekend to ponder the move and returned to work unmolested by the Fed's action. Stocks rebounded as investors instead chose to worry about the health of second-quarter earnings to be reported in coming weeks. In the sell-off, cyclical consumer and utilities stocks fared best; cyclical stocks took the biggest hit of all.

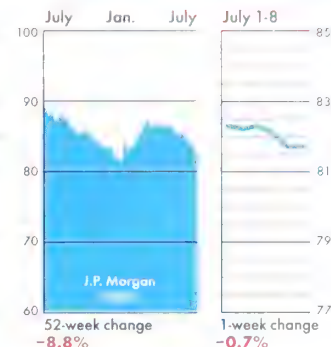
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

U.S. STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3293.3	-1.8	11.8
S&P 500 COMPANIES (Russell 1000)	216.8	-0.6	10.3
SMALL COMPANIES (Russell 2000)	185.8	-2.0	9.9
GLOBAL COMPANIES (Russell 3000)	230.2	-0.7	10.3

FOREIGN STOCKS

	Latest	% change (local currency) Week	% change (local currency) 52-week
LONDON (FINANCIAL TIMES 100)	2472.6	-0.9	-1.4
TOKYO (NIKKEI INDEX)	16,600.3	1.7	-28.2
TORONTO (TSE COMPOSITE)	3418.4	0.9	-2.4

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.30%	3.63%	5.7%
30-YEAR TREASURY BOND YIELD	7.61%	7.75%	8.5%
S&P 500 DIVIDEND YIELD	3.07%	3.02%	3.3%
S&P 500 PRICE/EARNINGS RATIO	23.2	25.5	18.4

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	410.9	411.1	Negative
Stocks above 26-week moving average	40.7%	39.3%	Neutral
Speculative sentiment: Put/call ratio	0.47	0.43	Positive
Insider sentiment: Vickers sell/buy ratio	2.10	2.13	Neutral

INDUSTRY GROUPS

FOUR-WEEK LEADERS

	% change 4-week	% change 52-week
GOLD MINING	6.9	-12.2
PROPERTY-CASUALTY INSURERS	6.2	6.1
FOODS	6.1	9.3
HEALTH CARE SERVICES	6.1	52.6
LIFE INSURANCE	5.4	34.6

FOUR-WEEK LAGGARDS

	% change 4-week	% change 52-week
DIVERSIFIED MACHINERY	-12.8	-10.6
TRUCKING	-12.5	6.1
ENGINEERING AND CONSTRUCTION	-12.5	-20.4
HEAVY-DUTY TRUCKS	-12.2	13.7
INSTRUMENTATION	-12.1	21.3

Strongest stock in group

	% change 4-week	% change 52-week	Price
NEWMONT MINING	13.2	22.5	50 3/8
CONTINENTAL	9.3	15.4	30 7/8
KELLOGG	12.4	32.1	65 7/8
MANOR CARE	13.0	46.2	18 1/2
CAPITAL HOLDING	12.3	26.3	61 3/4

Weakest stock in group

	% change 4-week	% change 52-week	Price
INGERSOLL-RAND	-17.7	0.0	25 1/2
ROADWAY SERVICES	-12.9	22.3	65 3/4
FLUOR	-14.9	-22.8	37 1/4
CUMMINS ENGINE	-18.6	52.5	60 5/8
HEWLETT-PACKARD	-12.6	25.9	63 7/8

MUTUAL FUNDS

LEADERS

	Four-week total return	%
RUSHMORE PRECIOUS METALS INDEX PLUS	8.7	
BENHAM GOLD EQUITIES INDEX	7.7	
MAINSTAY GOLD & PRECIOUS METALS	6.6	

2-week total return

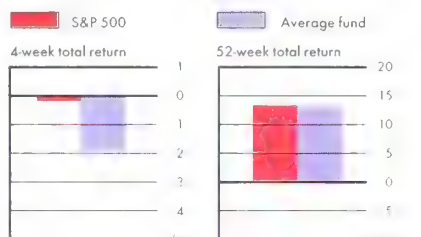
	%
FIDELITY SELECT SAVINGS & LOAN	64.3
FIDELITY SELECT REGIONAL BANKS	63.2
FIDELITY SELECT FINANCIAL SERVICES	55.2

LAGGARDS

	Four-week total return	%
G. T. LATIN AMERICA GROWTH	-13.3	
ROBERTSON STEPHENS EMERGING GROWTH	-11.7	
FIDELITY SELECT COMPUTERS	-10.9	

52-week total return

	%
LEXINGTON STRATEGIC INVESTMENTS	-53.1
UNITED SERVICES GOLD SHARES	-39.1
G. T. JAPAN GROWTH	-27.4



RELATIVE PORTFOLIOS

Dollar amounts represent the present value of \$10,000 invested one year ago in each portfolio. Percentages indicate one-day total returns.

Treasury bonds
\$11,937
+1.90%

U.S. stocks
\$11,163
+0.05%

Foreign stocks
\$10,631
+1.87%

Money market fund
\$10,389
+0.06%

Gold
\$9,336
+0.64%

Data on this page are as of market close Wednesday, July 8, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

July 7. Mutual fund returns are as of July 3. Relative portfolios are valued as of July 7. A more detailed explanation of this page is available on request.

REMEDIES FOR A UNIQUELY FRAIL RECOVERY

It is now clear that this recovery is not only weaker than previous recoveries, it is fundamentally different. While cyclical forces such as an improved housing market are pushing the economy forward, deep-seated structural problems are throwing up barrier after barrier to growth. The decline of the defense industry, the globalization of the economy, the bank crisis, firings instead of temporary layoffs, and the debt binge of the 1980s all work against a normal economic rebound. The result is a stuttering recovery that may be unable to generate enough jobs to keep the unemployment rate from rising to 8% by the fall (page 60). Unfortunately, policymakers in Washington are underestimating the impact of these new structural elements and are still taking a conventional approach to promoting growth. Predictably, the Federal Reserve is pushing short-term rates down in hopes of stimulating demand. Congress and the Administration are in gridlock, paralyzed by the \$350 billion federal deficit that prevents fiscal stimulation.

This won't do. What is needed from our leaders is a recognition that the 1990s' economic landscape is different, requiring flexibility and originality in policymaking. It doesn't take a rocket scientist to come up with a growth plan, either. We all know what has to be done. The Fed has to get long-term, not just short-term, interest rates down. That would reliquify consumer balance sheets and spur the flagging housing market. The Fed could explore several options, including the purchase of 30-year Treasury bonds in the open market. It could also jawbone the banks that have rebuilt their balance sheets by not passing on the benefits of low rates to borrowers. If the prime had fallen as much as CD rates, it would be 4% instead of 6% today.

Consumer demand can only be rekindled if the job market improves. A significant federal capital-spending program that would pump money into low-tech roads and bridges, high-tech fiber-optic highways, and worker-training programs would be a wise investment. The money would generate jobs and, more important, improve the productivity of the work force. To pay for more fiscal stimulus, Congress must bite the bullet and cap the growth of the the nation's runaway middle-class entitlement programs that soak up 60% of federal spending. This is the only way to gain any control over our economic future. The polls show that people are willing to take more risk in solving the nation's economic problems. Giving up some consumption for investment in human capital and infrastructure is the only route to healthy sustainable growth. And that's true whether or not any Presidential candidate has the courage to say so.

THE SOUTER SURPRISE: HE'S JUDICIAL

When President Bush nominated an obscure New Hampshire judge for the Supreme Court two years ago, then-White House Chief of Staff John H. Sununu comforted worried conservatives that David

H. Souter would be a "home run" for the New Right. In the high court's term that ended on June 30, Souter has indeed proved to be conservative, but not in the way Sununu intended.

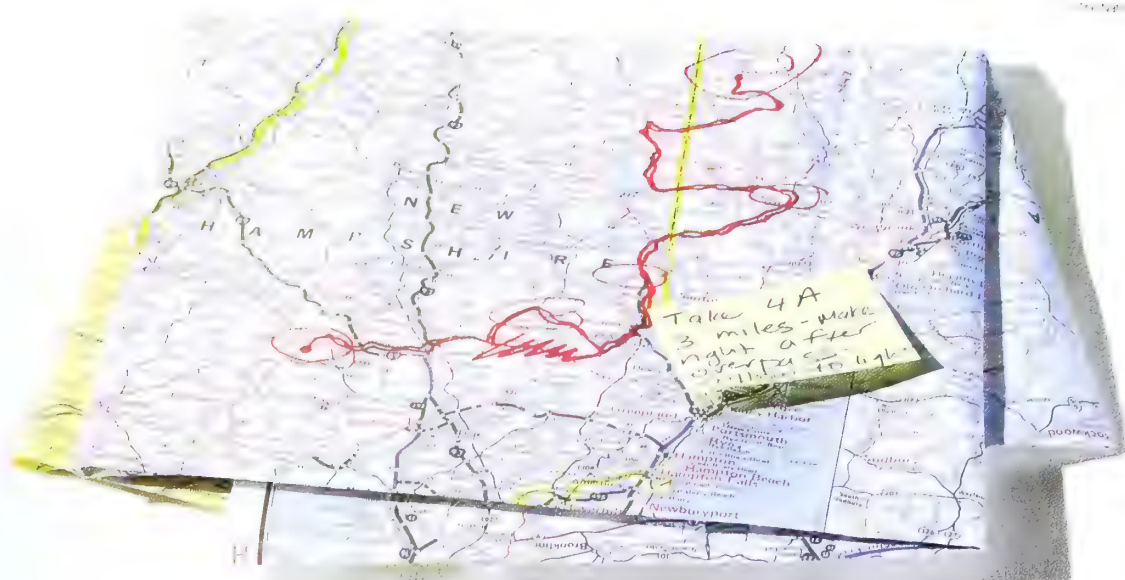
There is a very wide gulf between political and judicial conservatism. Judicial conservatives interpret laws rather than make them. They believe that prior decisions have value, that the nation relies on and needs established rules, and that if the law is to be tinkered with, it must be done incrementally. Judicial conservatives practice judicial restraint rather than judicial activism. Political conservatives have roundly criticized the activism of the previous liberal majority on the Supreme Court. Yet right-wing hard-liners and some justices who profess to be judicial conservatives, such as Antonin Scalia and Clarence Thomas would like to be every bit as activist as the liberals in furthering their own agenda. Sharp changes in direction at the court from either political side can be destabilizing. Fortunately, in cases ranging from abortion to state taxes on companies, Souter—often joined by two other Republican nominees, Sandra Day O'Connor and Anthony M. Kennedy—has upheld the finest traditions of judicial conservatism. Souter, who was the swing vote in 13 of the 14 decisions decided by 5-4 votes last term, isn't being swayed by the passions of the day. Relying on precedents rather than ideology provides the stability that is crucial for individual and company planning for the future. For the nation, the appointment of Souter so far has proved to be a grand slam.

WHY BUSINESS SHOULD INVEST IN LITERACY

Illiteracy is a personal tragedy of immense dimensions. It drives people into a world of denial, deceit, and fearful coping. Nowhere is this truer than in the workplace. While nearly all Americans are technically literate, able to write their names and read a comic book, a growing number are functionally illiterate in terms of being able to operate in computerized factories and offices. The fifth- or sixth-grade reading skills that were perfectly sufficient for the previous generation of factory employees no longer are enough (page 68).

Paradoxically, while people are reading less today, literacy requirements on the job are rising faster. In a recent National Association of Manufacturers' survey, 40% of the companies polled had trouble upgrading their production techniques because of inadequately skilled workers.

Yet, aside from some notable innovators, Corporate America has preferred to let the schools handle literacy. But that won't solve a problem that afflicts 20% of the adult work force today. At the federal level, the National Literacy Act of 1991 provides an opening by allowing corporate programs to qualify for a portion of \$1 billion available in new adult education funds. Georgia provides \$150 corporate tax credit for every employee who finishes a company-sponsored literacy program. More of this kind of investment in human capital is just what the country needs.



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HIGH-TECH STAR

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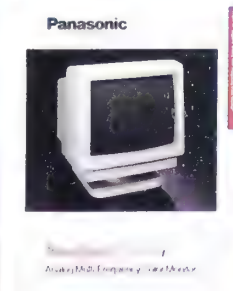
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Paul G.
Stern

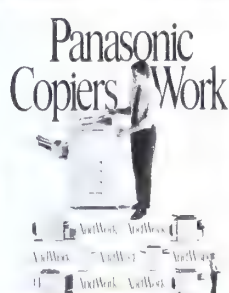
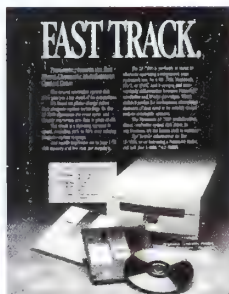
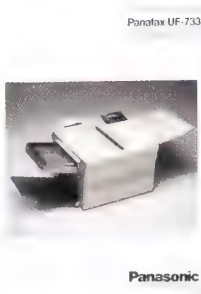
**CANADA'S
NORTHERN
TELECOM
TAKES ON
AT&T—AND
THE WORLD**

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*Seats upholstered in leather except for rear sides of seatbacks and other minor areas.





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ANY MESSAGE? A HIGH-TECH DUMMY IN AN ECHO-FREE CHAMBER IS USED TO TEST TELEPHONE EQUIPMENT AT NORTHERN TELECOM

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54 HIGH-TECH STAR

Not long ago, Northern Telecom looked likely to be a casualty of the telecommunications wars. No longer. Under hard-driving Paul Stern, the Canadian-American hybrid is challenging even AT&T. Its secrets? Rock-bottom costs, a big investment in research, and political savvy that helps it thrive overseas. Its future? A steadily strengthening position in what will be a \$200 billion market

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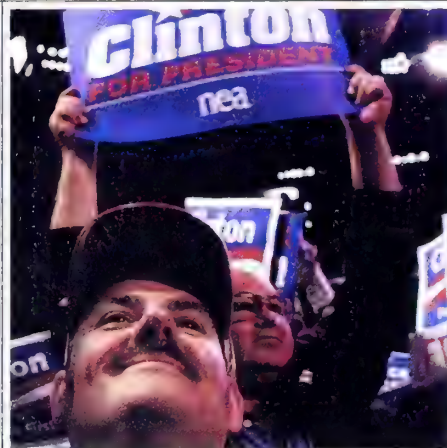
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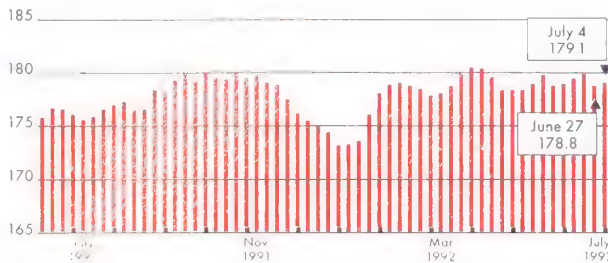
The Democrats finally get it
Don't let the trade doors swing back
Shareholder power to the Russians

BusinessWeek Index

PRODUCTION

Change from last week: 0.2%
Change from last year: 1.7%

1967=100 (four-week moving average)

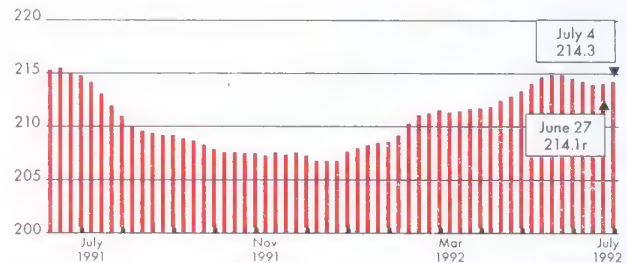


The production index rebounded in the week ended July 4, as coal output and rail-freight traffic recovered strongly from the previous week's rail strike. In addition, the seasonally adjusted output of electric power, paper, and paperboard increased. Production of lumber, autos, steel, trucks, and crude-oil refining fell in the latest week. Before calculation of the four-week moving average, the index increased to 181.4, from 170.9.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: -0.2%



The leading index increased during the week ended July 4, when the Federal Reserve moved to a more accommodative monetary policy. Higher stock prices, lower bond yields, improvement in the growth rates of materials prices and real estate loans, and fewer business failures offset the only damper on the outlook: continued deterioration in M2 growth. Before calculation of the four-week moving average, the index was up strongly, to 215.1, from 213.6.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (7/11) thous. of net tons	1,796	1,717#	12.6
AUTOS (7/11) units	86,153	59,640r#	2.4
TRUCKS (7/11) units	48,400	40,251r#	24.8
ELECTRIC POWER (7/11) millions of kilowatt-hours	65,431	60,747#	1.0
CRUDE-OIL REFINING (7/11) thous. of bbl./day	14,109	14,174r#	5.1
COAL (7/4) thous. of net tons	16,647#	13,461	22.6
PAPERBOARD (7/4) thous. of tons	818.0#	825.6r	10.3
PAPER (7/4) thous. of tons	760.0#	761.0r	4.4
LUMBER (7/4) millions of ft.	376.8#	484.9	10.5
RAIL FREIGHT (7/4) billions of ton-miles	19.0#	15.8	24.2

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPAA, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (7/15)	125	125	137
GERMAN MARK (7/15)	1.48	1.49	1.76
BRITISH POUND (7/15)	1.93	1.93	1.68
FRENCH FRANC (7/15)	4.99	5.02	5.96
CANADIAN DOLLAR (7/15)	1.20	1.19	1.16
SWISS FRANC (7/15)	1.34	1.34	1.52
MEXICAN PESO (7/15)	3,101	3,098	3,025

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (7/15) \$/troy oz	350.900	347.500	-4.9
STEEL SCRAP (7/14) #1 heavy, \$/ton	88.50	88.50	-0.6
FOODSTUFFS (7/13) index, 1967=100	200.9	202.8	2.0
COPPER (7/11) ¢/lb.	114.7	116.0	9.7
ALUMINUM (7/11) ¢/lb.	60.0	57.5	-0.5
WHEAT (7/11) #2 hard, \$/bu.	3.55	3.67	26.8
COTTON (7/11) strict low middling 1-1/16 in., ¢/lb.	61.58	61.40	-15.1

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (7/10) S&P 500	412.43	411.58	9.3
CORPORATE BOND YIELD, Aaa (7/10)	8.08%	8.16%	-10.6
INDUSTRIAL MATERIALS PRICES (7/10)	98.6	98.9	0.2
BUSINESS FAILURES (7/3)	313	391	-17.6
REAL ESTATE LOANS (7/1) billions	\$399.7	\$399.5r	-3.4
MONEY SUPPLY, M2 (6/29) billions	\$3,432.2	\$3,433.1r	1.4
INITIAL CLAIMS, UNEMPLOYMENT (6/27) thous.	416	420	7.2

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBC seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (June) total index	108.2	108.6r	0.8
CAPACITY UTILIZATION (June)	78.5%	78.9%r	-1.4
CONSUMER PRICE INDEX (June)	140.2	139.7	3.1
PRODUCER PRICE INDEX (June) finished goods	123.3	123.0	1.6

Sources: Federal Reserve Board, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (6/29)	\$949.6	\$949.1r	10.2
BANKS' BUSINESS LOANS (7/1)	282.1	280.2	-9.8
FREE RESERVES (7/8)	703	992r	144.9
NONFINANCIAL COMMERCIAL PAPER (7/1)	141.6	145.4	-4.9

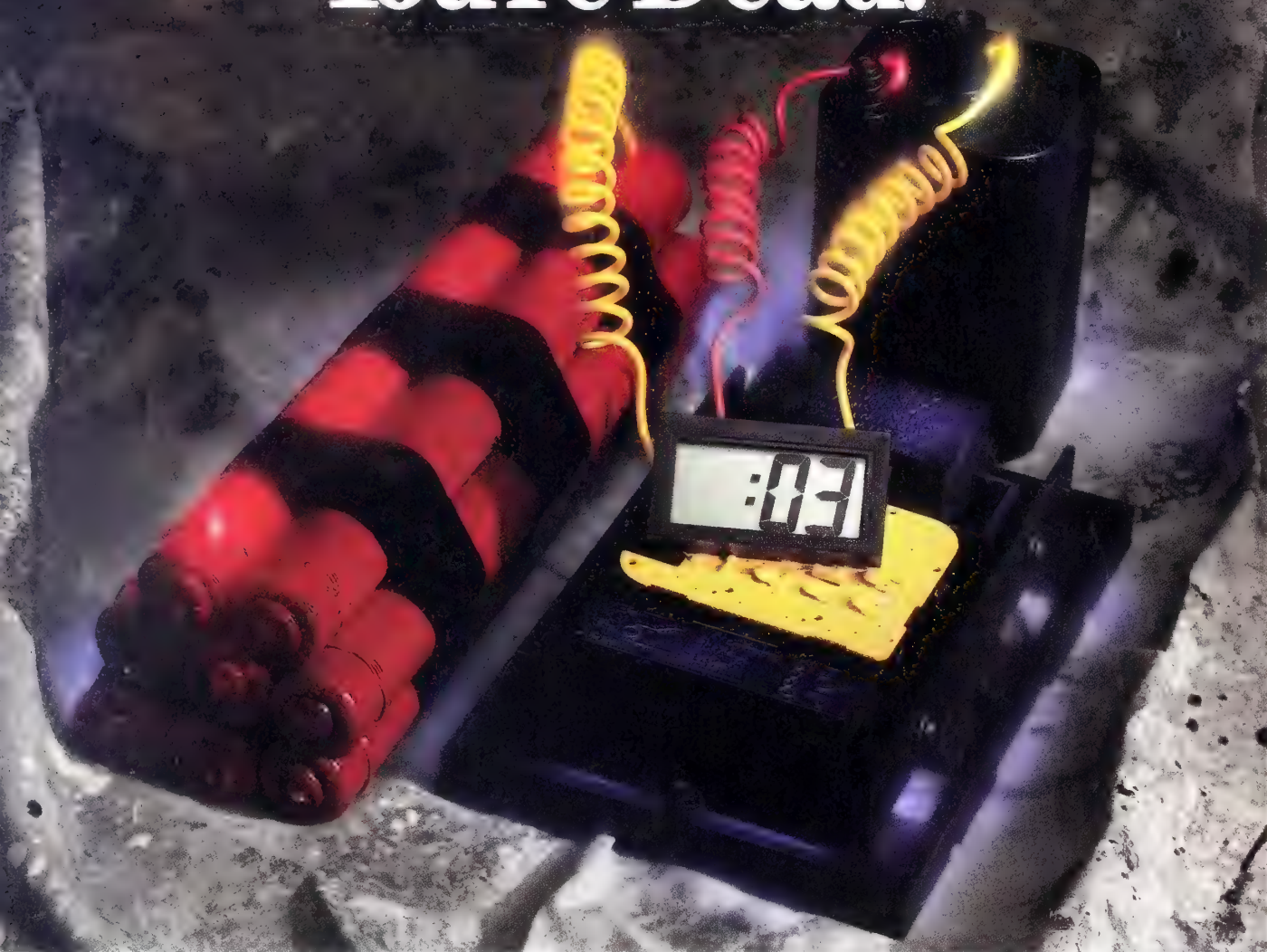
Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (7/14)	3.25%	3.35%	5.85%
PRIME (7/15)	6.00	6.00	8.50
COMMERCIAL PAPER 3-MONTH (7/14)	3.42	3.47	6.04
CERTIFICATES OF DEPOSIT 3-MONTH (7/15)	3.35	3.35	6.02
EURODOLLAR 3-MONTH (7/11)	3.54	3.74r	6.06

Sources: Federal Reserve Board, First Boston

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REBELS WITH A CAUSE.

Being conservative midwesterners with a rather meat-and-potatoes attitude toward business, we are somewhat awestruck by our status as the rebels of the insurance industry.

Perhaps we have bent a few pin-stripes out of shape. While our peers resisted change, we embraced it. As practical people, we've employed every efficiency technology has to offer. And we've taken a few common-sense management techniques that were proven successes in other industries and applied them for the first time to the insurance business.

The results have been both predictable and astonishing. In one decade we have become a company with \$12 billion in assets and \$116 million of profits. And, to the delight of our policyholders, our exposure to non-performing bonds and real estate is insignificant.

So much for the notion that being conservative and risk-averse is not profitable.

Are we rebels? To some, maybe. Do we have a cause? You bet. To continue employing the best resources we can find to make our business the best it can be.



OPERATING
EARNINGS PER SHARE



C o n s e c o

TEACHING POLAND TO GRIP THE INVISIBLE HAND

Climping around the Tomasovia plant in southeastern Poland in his cowboy boots, David Scott, an unpretentious Texan known as Scotty, frowns at the food cooperative's wine equipment. "Shucks," he tells the Polish managers with a distinctive panhandle twang, "your strawberries are the best in the world. Why ruin your reputation making rotgut wine? In a market economy, you'd be better off making good vinegar."

After spending 29 years at Nabisco Brands Inc., Scott knows what he's talking about. In July, 1991, the then-49-year-old manager got bored with his job, cashed in his pension, and was ready to sail to Tahiti. But Scott's boss talked him out of it. Nabisco, part of a nonprofit group called the Citizens Democracy Corps (CDC), wanted to assist newly freed Poland. So, Scott is helping Tomasovia navigate the shoals of capitalism.

In his eight months in the tiny town of Tomaszów Lubelski, Scott has been teacher, confidant, and prognosticator. Working from a corner table in the president's office, he taught company officials how to identify which products turned a profit and which ones didn't. That was all brand-new to officials accustomed to merely obeying central-government planners. As a result, they decided to quadruple production of frozen strawberries, drop some jams and pickles, and give the wine a separate brand name.

PARATROOPERS. Scott is one of a new breed: a capitalist "missionary." Nearly 1,000 Americans are roaming the former East bloc, from Bulgaria to Siberia, preaching the gospel of the "invisible hand." Some, such as the 54 Peace Corps business volunteers in Poland, gave up well-paying jobs and work for pennies. Others, like Scott, still draw salaries from their companies.

The trend is clearly growing. The Peace Corps plans to send 250 more vol-

unteers to the former Soviet republics by yearend. The International Executive Service Corps, which has hundreds of retired businesspeople abroad as unpaid consultants, sent 150 executives to Eastern Europe last year and plans to dispatch an additional 400 this year.

Typically, most CDC and Peace Corps business volunteers are at least 40 and have extensive business experience. Ted Michon, 54, was director of special projects at Union Pacific Corp. before going to Warsaw to advise Polish State Railways. He's now in Moscow advising Russians on railroads and privatization. Humana Inc. and Baylor Health Care

when Moscow was the biggest buyer of Tomasovia's products, its logo was a smokestack belching fumes into a pristine pine forest. Nabisco designers are helping them devise something better.

GRIDLOCK. Other problems are more complex. Take Michon's 18 months working with the Polish State Railways, known as PKP. The railroad was encountering competition for the first time, simultaneously struggling with declining traffic as trade within the East bloc fell off. Michon helped PKP discover that 80% of its traffic ran over just 50% of its lines. So PKP management decided to abandon thousands of miles of low-traffic lines. That meant massive layoffs, since PKP had more than 20 employees per track mile, compared with 1.3 at Union Pacific. When the unions balked, Michon called Omaha and got Union Pacific's labor specialists to provide guidelines for force-reduction programs. The unions signed on. "Michon made them understand that the railroad could lose

its total market unless it converted to market behavior," explains Boguslaw Liberatzki, Poland's Under Secretary of State for Transport.

Most volunteers, however, work on a scale much smaller than Michon's. Mary Roberts, 49, who used to administer a consortium of school districts in Minneapolis-St. Paul, advises the city council of Zamość. Officials of the medieval walled city (population, 59,000) near Poland's eastern border with Ukraine haven't shown much interest yet in her report on ways to improve city services. But when the manager of a state-owned gas station



ROBERTS: ZAMOSC OFFICIALS HAVEN'T LEAPT TO IMPLEMENT HER RECOMMENDATIONS

System of Dallas, working through CDC, are helping Romania rebuild its health care system, and Waste Management Inc. is advising Czechoslovakia on environmental problems.

Can these missionaries really make a difference? They think so, and many Polish businesspeople agree. But don't expect dramatic results overnight. When Scott persuaded Tomasovia managers to create a marketing-and-sales division, the former vice-president for production quickly offered to head it. "Then she asked me in private to explain the difference between marketing and sales," says Scott. Such innocence involves matters as simple as product logos. Back

asked for assistance in setting up a station of his own, she helped devise a business plan. The station opened last fall.

One gas station at a time is about the pace of change in Poland these days. One of the biggest reasons is that the shock of the new world has triggered a political gridlock. Land deals and buyouts of state companies can't get approval, and sizable Western aid or investment is stalled. For now, the efforts of David Scott, Ted Michon, Mary Roberts, and others like them may be the best hope of keeping the embers of capitalism alive in Poland.

PATRICIA KRANZ

Kranz previously reported from Croatia.

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DON'T START A CHIP WAR IN JAPAN WHEN EVERYONE'S COOPERATING

Your commentary's claim of "unfulfilled promises" by Japan on semiconductors ("A chip war with Japan? No. But maybe a skirmish," Top of the News, June 22) misstates the promise made to U.S. chipmakers.

The 1991 semiconductor pact was a pledge of market access, not a guarantee of market share. Its target for foreign penetration of the Japanese market remains an achievable goal.

Since the initial chip agreement in 1986, the North American share of the Japanese market has doubled. Sales have more than tripled. Far from being closed, Japan has become a lucrative market for some leading U.S. chipmakers.

U.S. companies do not produce the chips used in a wide range of Japanese products and thus forgo a significant portion of the Japanese market. Economic hard times have also taken a toll. Recessionary pressures have stagnated Japanese demand and slowed American investment in Japan.

Sanctions have not made American business more competitive in the past. There is no reason to think they will do so in the future. Japan is the biggest semiconductor market in the world. With U.S.-Japanese cooperation at an all-time high, this is not the time for a trade war over chips.

Taro Okabe, Chairman
Electronic Devices Trade
Policy Committee
Electronic Industries
Association of Japan
Tokyo

THE LOW-INCOME HOUSING TAX CREDIT DESERVES CREDIT

Critics of the low-income housing tax credit ("Low-income housing: Is there a better way?" Social Issues, June 22) apparently have not visited Dudley Street in Roxbury (Boston) recently, or the South Bronx, or Miami, or any number of cities across the country where private investment has returned, along with hope and opportunity.

In areas like Dudley Street, areas that have epitomized urban neglect and decay and conjured up images of vacant and abandoned housing, rubble-strewn streets, and row upon row of crack houses, there is a new reality. Community-based developers are creating new and bustling neighborhoods that are turning vacant lots and abandoned buildings into affordable housing, attracting private investment, and creating jobs and opportunity.

Through the efforts of nonprofit and for-profit developers, together with local governments, thousands of units of affordable housing have been developed, businesses flourish, and hope has returned. Critically important to the success of these efforts has been the attraction of private investment dollars. Long perceived as too risky, affordable-housing development has been transformed into a prudent investment by the tax credit. The rehabilitation and new construction has given moribund communities a vibrancy that attracts additional private investment. Vouchers are unable to perform this function.

Dozens of this nation's most distressed communities are in the midst of remarkable transformations. But those transformations are in danger of being halted in their tracks because of the uncertainty surrounding the tax credit. Permanent extension is crucial.

Raymond L. Flynn, Mayor
Boston

MICROWAVE COMMUNICATIONS: THERE'S ROOM FOR EVERYBODY

One must listen to cries of pain from entrenched microwave users objecting to the Federal Communications Commission's attempts to clear spectrum for the emerging personal-communications networks with a large economy-size grain of salt ("The FCC's high-voltage agenda could make lots of sparks," Washington Outlook, June 15). The 2-gigahertz band in question is lightly used, particularly in the urban areas that have huge blocks of empty spectrum. All the parties understand that an orderly and nondisruptive migration out of this band over a period of years is technically and economically feasible and

BUSINESS WEEK
JULY 27, 1992 ***3276
ISSN 0007-7135



Published weekly, except for one issue in January, by McGraw-Hill Inc., Founder: James H. McGraw (1860-1948).
Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Publishing, 1221 Avenue of the Americas, New York, N.Y. 10020.
Telephone: (212) 512-2000. Domestic Telex: 127960, International Telex: 223363. Cable: McGraw-Hill New York, TWX: 710-381-4879.
U.S. subscription price: \$14.95 per year (4 issues); \$49.95 3 years.
Single copy: \$2.75. Write for rates in other countries.
Business Week Subscriber Service: 1-800-455-1200.

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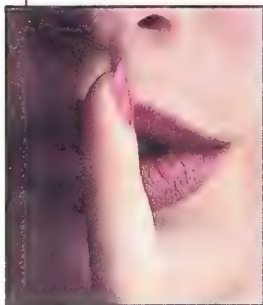


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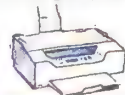
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that numerous technologies exist for sharing in the interim.

It is unfortunate that it takes an FCC chairman of unusual courage such as Alfred C. Sikes to accomplish what should be a simple, logical step in allocating a limited national resource to maximize the benefits to consumers of emerging technologies.

Richard G. Tomlinson, President
PCN Communications Inc.
Glastonbury, Conn.

WAS KENNAMETAL'S REPUTATION DRAGGED THROUGH THE MUD?

It would be futile to refute all unsubstantiated parts of "Was Iraqgate business as usual?" (Top of the News, July 13), but there are several issues that require elaboration.

First, despite whatever allegations the article makes against Assistant U. S. Attorney Gale McKenzie, the fundamental fact is that a federal grand jury, made up of about 20 individuals with various backgrounds and political persuasions, reviewed all documents and heard extensive testimony relating to Kennametal's operations and found no violation of U. S. law.

In addition, the federal grand jury found absolutely no connection between Kennametal and Banca Nazionale del Lavoro (BNL). That is completely understandable since Kennametal did not have any type of banking relationship with the Atlanta BNL branch.

Finally, BUSINESS WEEK says it "consulted a myriad of independent sources, court records, congressional testimony, and documents subpoenaed by Congress." This suggests a process that would have taken at least weeks to review and follow up. However, the reporter contacted Kennametal less than 48 hours from filing the story. The company cooperated with every request the reporter sought and offered to meet with the reporter to review any and all questions and documents. The offer was turned down by BUSINESS WEEK.

Reading your story recalls a statement made several years ago by a government official after his complete acquittal on various, serious charges of wrongdoing: "What office do I go to to get my reputation back?" This BUSINESS WEEK story places Kennametal and its 5,000 employees in the same predicament.

Robert L. McGeehan
President & CEO
Kennametal Inc.
Latrobe, Pa.

Editor's note: Kennametal Inc.'s offer to meet with our reporter came after

CORRECTIONS & CLARIFICATIONS

In "High tech's huddled masses: Making a mark in Silicon Valley" (Cover Story, July 13), we misstated results for Solecron Corp. The company's sales were \$265 million for the year ended Aug. 31, 1991, and \$294 million for the first nine months of fiscal 1992.

our press deadline. Over a period of three days, BUSINESS WEEK provided Kennametal with an opportunity to respond to all the issues raised about the company.

WHAT IT TAKES FOR ENERGY SAVINGS TO COUNT

There is no way to "slash energy use" ("Growth vs. environment," Cover Story, May 11). Every initiative requires massive investments of capital, all upfront. The savings become noticeable only after a large fraction of all the existing light bulbs, refrigerators, air conditioners, and furnaces have been replaced. Industrial and residential savings in fuel-burning are all accomplished by converting to electricity. And that will require more new power plants. The maximum theoretical contribution of solar energy can't exceed 8%. In fact, 1% to 2% would be marvelous, if we can ever reach it. The remaining power plants that don't emit carbon dioxide will have to be nuclear.

A. David Rossin
Los Altos Hills, Calif.

Editor's note: Rossin was Assistant Secretary of Energy for Nuclear Energy in 1986-87.

MAYBE BECKER COULD TRY A LITTLE OCCUPATIONAL THERAPY

For Gary Becker ("A ticket out of the inner city," Economic Viewpoint, June 22) to equate computer programming with carpentry and to dismiss both as occupations fit only for high school dropouts to be taught in rip-off trade schools displays a sad ignorance of modern economic and technological realities as well as an elitist contempt for honest labor.

With regard to the first issue, computer programming is now essential to the operation of all major enterprises, industrial operations, financial markets, the production of newspapers and magazines, as well as any mechanical or electronic device that uses an embedded microprocessor. With regard to the second, it should be remembered that according to the Talmud, scholars were

required to work at a craft as well as their studies. Perhaps the same should be true today for economists.

Jason Olasky
Rockville, Md.

LATIN AMERICA'S UNDERCLASS ISN'T FEELING THE REFORMS

Although I found your article "Latin America" (Cover Story, June 15) thorough and, for the most part, balanced, I wonder if there isn't something missing. While you do make mention of the various potholes that exist along the road to free markets and neoliberal capitalism, you don't convey an accurate sense of either the desperate plight of Latin America's vast underclass, which remains largely untouched by the bounty of this economic "renaissance" or the adamant opposition these supposedly "enlightened" reforms continue to face.

Richard Salisbury
Research Associate
Council on Hemispheric Affairs
Washington

YOU COULD CALL IT RIGATONI MORTIS

Your piece "Sending leftover pizzas down to the farm" (Developments to Watch, June 22) brought back memories of a similar experiment on an Israeli kibbutz where my husband and I lived in the 1970s.

The dairy-herd manager had contracted to purchase the unusable products of a nearby pasta factory, figuring that the low-cost nutrition in the broken macaroni and spaghetti would be a viable replacement for some of the cattle feed. Day one on the new diet, the animals demolished their substantial portions of dry pasta with the avidity of tourists in Alfredo's. However, the following morning, every cow lay on her back, legs in the air, belly distended, moaning and mooing in pain. Apparently, the noodles had "cooked" in the moist heat of the ruminant digestive systems and quadrupled in bulk. Our veterinarian had no Alka-Seltzer equivalent to ease the bovine suffering, and many of the herd died. Hopefully, the researchers at Pennsylvania State University will fully investigate the effects of junk food on livestock before precipitating another "cattle-astrophe."

Melinda Mandelbaum Stein
Savannah, Ga.

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Books

IN THE IMAGE OF THE BRAIN

Jim Jubak

Little, Brown • 348pp • \$21.95

ARTIFICIAL LIFE

Steven Levy

Pantheon • 390pp • \$25

IT 'THINKS,' THEREFORE IT IS?

A foot-long robotic cockroach clambers over a telephone book as it crawls across a room. Named Genghis, it was born at the Massachusetts Institute of Technology. The metallic bug has six motorized legs, six sensors for a head, and a torso loaded with computer chips. Plus a new pal, Attila. Packed with 150 sensors, Attila is much smarter: When dropped on its back, Attila can rotate its head and legs 180 degrees so it can continue walking or—eck!—climbing.

Two new books profile Genghis, Attila, and other projects that move beyond artificial intelligence as we have come to know it. AI's disciples have long been obsessed with replicating the mind's abstract thought patterns. The traditional approach has been to use computers to crunch through long lists of the mind's

rules about the world—for example, that rooms have four walls. By contrast, these books explore efforts to mimic thought and behavior more precisely through neurobiology and genetics. Genghis and Attila, for instance, have no concept of the room they are in. Instead, they rely on base neurological instincts to avoid objects, wander around, and learn about their environment.

Journalist Jim Jubak and author Steven Levy both profile the scientists and entrepreneurs on this frontier. Jubak's approach is scientific, while Levy's is philosophical. Jubak's *In the Image of the Brain* grapples with the technology of duplicating the human brain and nervous system. It asks: How close can we get? Levy's *Artificial Life* ponders the implications of creating organisms out of software and silicon. It asks: How

will the existence of artificial life change our view of natural life and ourselves?

Jubak shows how Genghis and Attila shape up against lab rats in navigating an environment. The robo-bugs seem to learn simple actions one step at a time—is there something in the way, or not? Eventually, they find their way around and perform complex routines. Rats store a mental map of landmarks. But change the layout, and they resort to the same devices as Genghis and Attila.

Such comparisons between computers and animals are central to the field of so-called neural networks, which Jubak explores in depth. A neural network simulates a nervous system using chips or software instead of neurons. The theory is that the brain, or any neural network, is really just the sum of its physical parts rather than some mysterious reasoning machine. "The biology of the brain is the cause of the mind," Jubak writes. Taking that as a premise, one group of researchers at Carnegie Mellon University has succeeded in building a neural net that drives a Chevy van by learning the patterns of the road. Other neural nets can select a familiar face from a photo or weigh mortgage risks.

Levy takes a much more Asimovian



The Road Warrior.

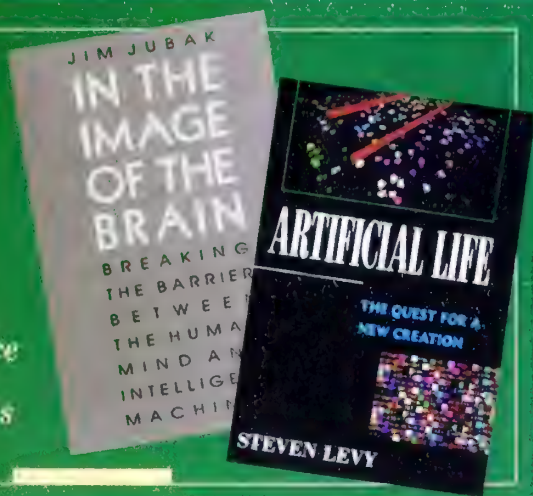


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Two views, one fanciful and one focused, of where artificial-intelligence research is taking us



view, challenging the accepted definition of life itself. Levy argues that Genghis and Attila may evolve into something that could be considered—EEK!—alive. What if you built an insect that behaved so much like an insect that for all practical purposes it was an insect? Such an image is especially jarring in light of the MIT scientists' vision of using a colony of Atilas to explore distant planets.

For the most part, though, Levy focuses not on robots but on computer simulations of life. He sees enormous

implications in alternative life forms that move, eat, reproduce, and kill silently on computer screens and disk drives. He interviews some very quirky people at some very respectable research labs who are hard at work creating Darwinian universes inhabited by software critters that can pass along complex genetic code to their offspring and evolve through thousands of generations in a few hours. This work may someday lead to a better understanding of computer viruses or maybe even human evolution.

Levy takes various passes at the basic question: What is life, anyway? In what may be the ultimate in political correctness, he quotes researchers who argue that the human definition of what constitutes life is biased because it is unquestioningly human-centered. Who says living organisms have to be carbon-based? Why can't they exist within a computer and subsist on data? "These other forms of life, artificial ones, want to come into existence," says Chris Langton, an impassioned pioneer of the field. "And they are using me as their vehicle."

Man gives birth to mutant ninja software? Well, it's fun to contemplate whether humans can bestow their traits on the sterile 1s and 0s of computer programs. Such thoughts force us to appreciate our own complexities. In this respect, it's not hard to see how a writer can get carried away. Jubak doesn't. As a result, *In the Image of the Brain* provides a sober snapshot of what's going on now in the fascinating field of neural networks. In *Artificial Life*, Levy clearly overreaches, but he provides an eloquent discussion of the consequences if the people he profiles happen to be right. Both books portend intriguing things to come.

BY EVAN I. SCHWARTZ

Schwartz covers software for BW.



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WE SHOULD FOCUS ON HUMAN CAPITAL, NOT CAPITAL

BY ALAN S. BLINDER



President Bush has nothing better to offer than the tired, trickle-down policies that got us in the current mess. Clinton's emphasis on human-capital gains is more likely to raise America's productivity

Lest anyone has forgotten, Presidential elections are supposed to be national referendums on policy. This time the central economic issue should be how to raise the nation's anemic long-term growth rate. Reducing the much ballyhooed budget deficit is but a means toward that end.

There are three ways to boost output per hour—what economists call productivity. The sweetest way is to improve our technology. As the songwriter said: Nice work if you can get it—and we should certainly try. But economists probably know more about pursuing the other two routes: accumulating more private capital and improving the quality of our work force. Public-infrastructure capital can and should be a useful adjunct to either, but it cannot play the leading role.

Let's be clear. This is not an either-or choice. We must work on both our capital and labor resources. But since no nation can do everything at once, the emphasis matters. Shall we concentrate on augmenting our private capital or on enhancing our human resources? Which will be the engine of growth and which the caboose?

TIRED CLICHE? President Bush has a straightforward answer: Emphasize capital formation by cutting the taxes that investors pay on their capital gains. This, he argues, will lead to more capital formation and thence to faster productivity growth. This "trickle down" argument should by now be familiar enough to give Americans the willies. It is, after all, the tried-and-untrue policy of the 1980s. That it failed so miserably either to accelerate capital formation or improve productivity growth should give us pause.

Governor Clinton's economic plan offers a clear alternative. While neither denigrating nor forgetting the role of capital, this challenger is placing most of his bets on human investments—with a little badly needed public infrastructure thrown in. He wants more and better education, more on-the-job training, greater access to college, and so on.

The advantages of the Clinton approach are many. Let's start with arithmetic. Since labor inputs account for roughly 70% of gross domestic product and capital inputs for just 30%, a 10% increase in the amount of capital per worker would boost productivity 3%. But a 10% increase in labor quality would gain us 7%. Each of these is a tall order, to be sure. But look at the difference in what we gain if we succeed.

The mere fact that 70% is more than 30% would be a debater's point if we knew how to make the capital medicine work but were in the dark about how to apply the human-re-

source medicine. The truth, however, is closer to the reverse. Tax incentives for saving and investment proliferated in the 1980s, and almost all failed. While the details are in dispute, two salient facts are not: There was no substantial rise in the share of gross domestic product saved or invested, and there was no burst of productivity growth.

In stark contrast, there is mounting evidence that rates of return on human investments are high. One obvious example is that wage gaps between more- and less-educated workers are now near historic highs. But we continue to underinvest shamefully in early education programs, such as Head Start, despite stunningly high rates of return.

SPECTATOR SPORT. As against this, where is the evidence that we can spur productivity growth by reopening the same old tax loopholes that gave us, among other things, all those empty office buildings and shopping malls? To my knowledge, none has been offered. Instead, we are to take it on faith that reducing the capital-gains tax will get America's entrepreneurial juices flowing again.

The case for a human-resource-based strategy doesn't end there. Americans may recall that the policies of the 1980s were not very kind to the lower 80%—or was it the lower 95%—of the population. Some additional income inequality is more or less inherent in the approach. Tax breaks for saving and investment directly benefit only those who hold substantial capital—a small minority even in our great capitalist democracy. Others gain only from what trickles down. Thus the Reagan-Bush growth strategy was bound to exacerbate income inequalities, as it did, and make economic growth a spectator sport for most Americans.

A growth strategy built around human resources has precisely the opposite effects. Almost all of us sell our labor, and the middle class gets most of its income that way. When human investments are the engine of growth, almost everyone gets to play in the economic game. These policies are also more likely to narrow income gaps than to widen them.

Finally, much has been made of the increasingly global economy around which information, goods, and capital freely fly. But labor is far less mobile than capital. American labor, in particular, rarely leaves the country. So, if the U.S. government showers tax breaks on capital, some of the benefits will inevitably flow abroad. But if we spend public funds on improving our human resources, virtually all the benefits will stay at home.

There is a choice in this Presidential election between two very different growth strategies. Let the voters decide.

ALAN S. BLINDER IS THE GORDON S. RENTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF *GROWING TOGETHER*



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Economic Trends

BY CHRISTOPHER FARRELL

A STUBBORNLY HIGH JOBLESS RATE COULD STYMIE BUSH

The Bush Administration got a rude jolt when the unemployment rate surged to 7.8% in June from 7.5% the previous month and 7.2% in April. And a key question for the President's reelection campaign is whether the rate is headed higher.

According to most economists, the answer is no. Unemployment, says the consensus, will stay around current levels at least until the end of the year. DRI/McGraw-Hill Inc. economist David Wyss believes the economy will grow at a modest 2% to 2½% annual rate—enough to keep the unemployment rate from moving any higher. Wyss also notes that the surprising jump in un-

those new job seekers, declares Zandi.

His higher unemployment-rate forecast is built on a 3.1% annual growth rate in the labor force, which is how fast the labor force was growing in the first six months of the year. That's faster than the long-term rate of 1.6%. But given the falloff in job seekers during the prolonged recession, that higher number is not out of line, he maintains. "The unemployment rate in the months ahead will not be good news for the Administration," says Zandi.

TOKYO'S MARKET DIVE MAY BE KEEPING U.S. INTEREST RATES ALOFT

One of the great finance puzzles of the past decade is why long-term interest rates are staying so stubbornly high. Even as short-term rates have plunged to a 29-year low, long-term Treasury bond yields have barely budged. Indeed, they are still above their 1986 lows, and bond rates have been heading up in recent days. Many economists blame the federal government's \$350 billion budget deficit for keeping long-term rates in the stratosphere. Others point to investors, badly burned by underestimating inflation in the late 1960s and 1970s, who are unwilling to gamble that the inflation dragon is slain despite little evidence of upward price pressure.

Another important, but often neglected, reason is the Japanese sell-off of U.S. debt securities, says William P. Sterling, an economist at Merrill Lynch & Co. Japanese investors have been unloading their holdings in an effort to prop up their ailing financial system as the Tokyo stock market has tumbled. According to Treasury Dept. data, Japanese holdings of U.S. Treasury securities fell from \$102 billion at the beginning of 1989 to \$72 billion by the first quarter of this year.

Just as huge inflows of Japanese capital during most of the 1980s depressed interest rates on U.S. Treasuries and supported America's economic boom, says Sterling, the recent outflow of Japanese investment is keeping U.S. bond yields high and hampering the U.S. economy's rebound. He estimates that long-term interest rates would be about half a percentage point lower were it not for the Japanese selling. If Sterling is right, the continued weak performance of the Japanese stock market and the enormous U.S. budget deficit add up to high long-term interest rates for a long time to come.

PROOF THAT PATIENCE IS A VIRTUE WHEN IT COMES TO SMALL CAPS

It's an old saw on Wall Street: Over the long haul, small-company stocks far outperform big-cap stocks. But how much better? A recent study by pension consultant Wilshire Associates found that the smallest 500 stocks by market capitalization (out of a total of 2,500) returned a nifty 18.6% annually from 1975 to 1991. By contrast, the 500 largest-cap stocks returned 12.5% a year. So \$10,000 invested in small caps was worth \$220,000 17 years later, after compounding, vs. \$83,000 for large caps.

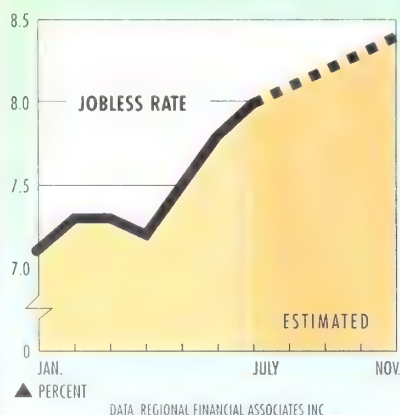
There's a catch, though. Using the Wilshire data, money manager Aronson + Fogler found that those small-cap returns are earned only by buying and holding rather than by trading in and out. If an investor bought and sold the small-cap portfolio once a year, the \$220,000 turns into \$79,400. But a large-cap portfolio holds up much better, shrinking to only \$75,700 from \$83,000.

Why? Trading costs are a lot higher for small caps, says Theodore R. Aronson. First, they're much less liquid, and the spread between what investors pay to buy them and what they get for selling is wide. But for big caps, the spread is very narrow, so it costs less to trade them. Second, small caps generally sell for a lot less than big caps. So commissions, which are usually calculated on a per-share basis regardless of stock price, are a larger percentage of the total outlay in small-cap trades. Says Aronson: "Ignoring transaction costs can be hazardous to your financial health."

BIGGER THAN EVER: THE LOCAL TAX BITE ON BUSINESS

Businessmen may dislike Washington policymakers, often with good reason. But a recent survey by accountant Coopers & Lybrand suggests they have equal reason to fear officials closer to home. Hard-pressed state and local governments need money, and they are going after business to get it. According to the survey, state and local taxes accounted for 46% of the total corporate tax burden of the 348 responding companies, most with annual sales above \$100 million. State and local taxes went up over the past three years for 83% of the companies, and 92% of them anticipate further hikes over the next three years.

ONE FORECAST SEES UNEMPLOYMENT CLIMBING



employment over the last few months was largely driven by an unexpected surge in people looking for work, which he believes will not be repeated anytime soon.

But Mark Zandi, an economist at Regional Financial Associates Inc., an economic-forecasting firm, says the unemployment rate could hit a disturbingly high 8.4% in November (chart). Zandi doesn't dispute Wyss's economic-growth forecast, but he parts company on the dynamics of the labor markets. Simply put, Zandi says the unemployment surge of the past few months was no fluke. Indeed, the unemployment rate has been on the rise since April. With the economy on a recovery path, he believes a lot of people who had stopped seeking work during the recession began looking for jobs this year. But the economy isn't growing fast enough to absorb all of



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1914

In one of the earliest known safety tests, John Dodge takes two of the first automobiles bearing his name and drives them straight into a brick wall at nearly 20 miles per hour. When a startled employee asks why, Dodge says, "I might as well, because someone else is going to do it when these cars get on the road."

Dodge's first safety test for tires is rather unscientific. He throws them off the top of a four-story building.



1931

Chrysler introduces Floating Power, a refinement of its earlier enclosed rubber engine mount idea. (Incidentally, Floating Power was so popular that it was licensed to other carmakers.)

1936

In a dramatic demonstration of the structural integrity of the 1936 Dodge,

W E Blandenburg straps himself in the car and rolls it down a steep embankment. Incredibly, the car lands right side up. Even more incredibly, Blandenburg gets out, smiles for the cameras, gets back in, and drives away



1941-45

Chrysler spends the war years building tanks and bombers. Vehicles that were decidedly unsafe for the competition



1937

Good news for backseat drivers: Chrysler introduces the first safety padding on the back of front seats.

POSSIBLY THE ONLY TIME ANYBODY GOT AHEAD BY PLAYING IT SAFE.

1923

Dodge introduces the first all-steel closed car body in the U.S. (Quite a bit safer than the wood-framed car bodies that preceded it.)

1924

The first four-wheel hydraulic brakes on a U.S. production car appear on the first Chrysler. Fifteen years later, all U.S. cars have hydraulic brakes

1926

Chrysler introduces the first enclosed rubber engine mounts. Before that, vibration would shake up even the sturdiest of drivers.

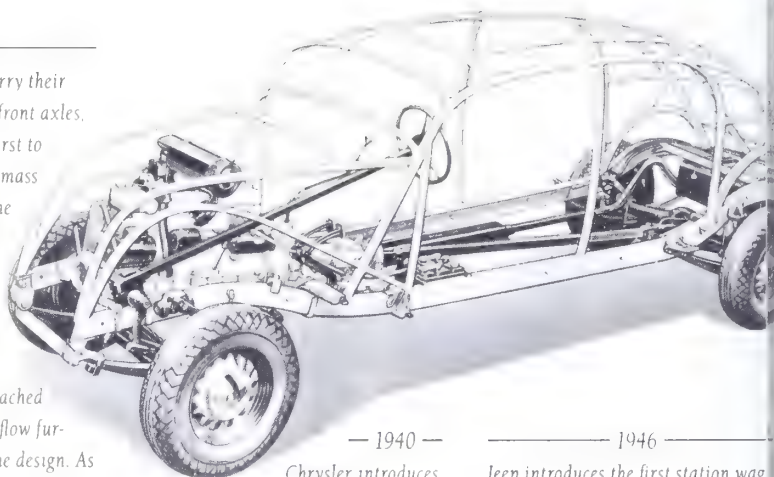


1934

In an era when all cars carry their engines well behind their front axles, Chrysler's Airflow is the first to place a third of its engine mass ahead of the front axle. The result is better weight distribution, safer handling and shameless imitation by other carmakers

With its all-steel body attached to a steel skeleton, the Airflow further refines the art of frame design. As the first car body to provide a majority of the car's strength, it paves the way for modern unit-body construction

In another industry first, the spring rates of the Airflow are synchronized to reduce pitching and improve control during acceleration and sudden stops



1940

Chrysler introduces the first twin leading shoe brakes, improving stopping power and the chances of avoiding an accident.

1941

Before Chrysler devises the Safety Rim wheel, a blowout would often cause the tire to separate from the wheel, forcing the hapless driver to stop his car on steel rims.

1946

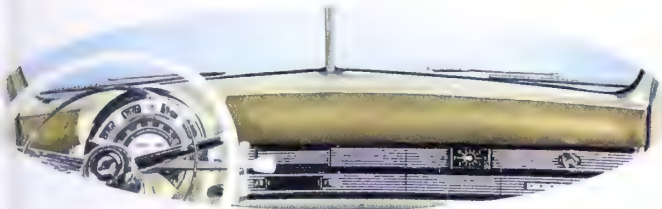
Jeep introduces the first station wagon to use an all-steel body. Which makes traveling safer for kids, dogs, and bags of groceries.

1949

Before Splash-Proof ignition was introduced by Chrysler, a little water could stop a 4,000-pound car. Clear, not the safest way to travel on a busy highway.

1949

Realizing that the dashboard isn't exactly the best place for exposed metal that won't give in an accident, Chrysler creates the first padded dashboard.



1950

Chrysler introduces the first four-wheel, self-energizing disc brakes.

1951

Chrysler designs the first forced air-cooled brakes, because overheated brakes aren't reliable.

1959

The first automatic dimming electronic rear-view mirror reduces daylight glare.

1960

Chrysler becomes the first to offer high-beam dimmers that automatically switch headlamps to low beam when an oncoming vehicle is detected.

1963

The first airfoil wiper arms keep the wipers pressed firmly against the windshield at high speeds.

1966

Firm in the belief that seat belts can be made even safer, Chrysler offers the first shoulder harness.

Chrysler introduces the first separate, self-contained rear heater-defroster system. (Even when Chrysler engineers are looking backward, they're still looking forward.)

1968

Chrysler creates the first rear-window washer system. It gives Chrysler drivers greater visibility of what's behind them. And it gives Chrysler engineers greater visibility as creators of safe vehicles.

1969

The first quartz-halogen driving light greatly increases nighttime driving safety. Years later, other car companies see the light and introduce their own quartz-halogen lights.

1971

Why did Chrysler engineer the first automatic tailgate locking system? Because a station wagon full of screaming kids can cause you to lose your mind. And your memory.



1971

Continuing a 40-year tradition of brake refinements, Chrysler introduces the first four-wheel, wheel-slip control brake system. This technology was the forerunner of modern anti-lock braking systems.

The first headlamp washer with power brush does for headlamps what windshield wipers do for windshields.

1972

One of the most-ignored rules of safe car repair is: Always disconnect the battery first. Chrysler makes it easier than ever for mechanics with the first battery quick-disconnect feature.



1973

Jeep introduces the first U.S. vehicle to offer full-time four-wheel drive. After all, why should improved traction and handling be a part-time affair?

1979

Realizing the inherent problems of bias-ply tires (hydroplaning and punctures), Chrysler becomes the first to make radial tires standard on all its cars.

1987

Condensation in the exhaust system leads to corrosion. And corroded exhaust pipes can leak toxic fumes. Chrysler responds by being the first carmaker to install corrosion-resistant stainless steel exhaust systems on every car it builds.

1988

Chrysler becomes the first U.S. manufacturer to install a driver's air bag as standard equipment. Other carmakers are forced to play catch-up.

1988

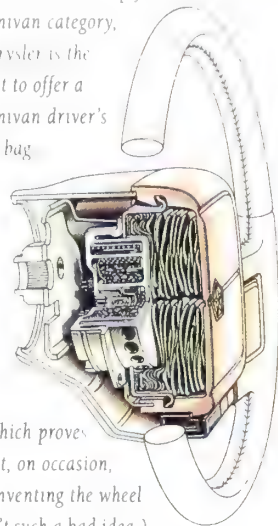
Chrysler convertibles become the first convertibles to offer driver's air bags as standard equipment. A little extra air couldn't hurt, could it?

1989

Chrysler offers the first four-wheel antilock brakes on a four-wheel drive vehicle. Ranchers, surfers and urban cowboys, rejoice!

1991

Not content to simply create the entire minivan category, Chrysler is the first to offer a minivan driver's air bag.



(Which proves that, on occasion, reinventing the wheel isn't such a bad idea.)

1992

Chrysler creates the first built-in, fold-down child seat. It keeps children firmly in their seats, and our competition squirming in theirs.

Tough off-road conditions could inadvertently deploy an air bag. Chrysler responds by deploying its engineers. The result? The Jeep Grand Cherokee, which is the only sport-utility vehicle with a driver's air bag... and it's standard.

1993

Chrysler draws on 79 years of safety innovation to create the first car to combine standard dual air bags and anti-lock brakes with options like traction control and a built-in fold-down child seat.

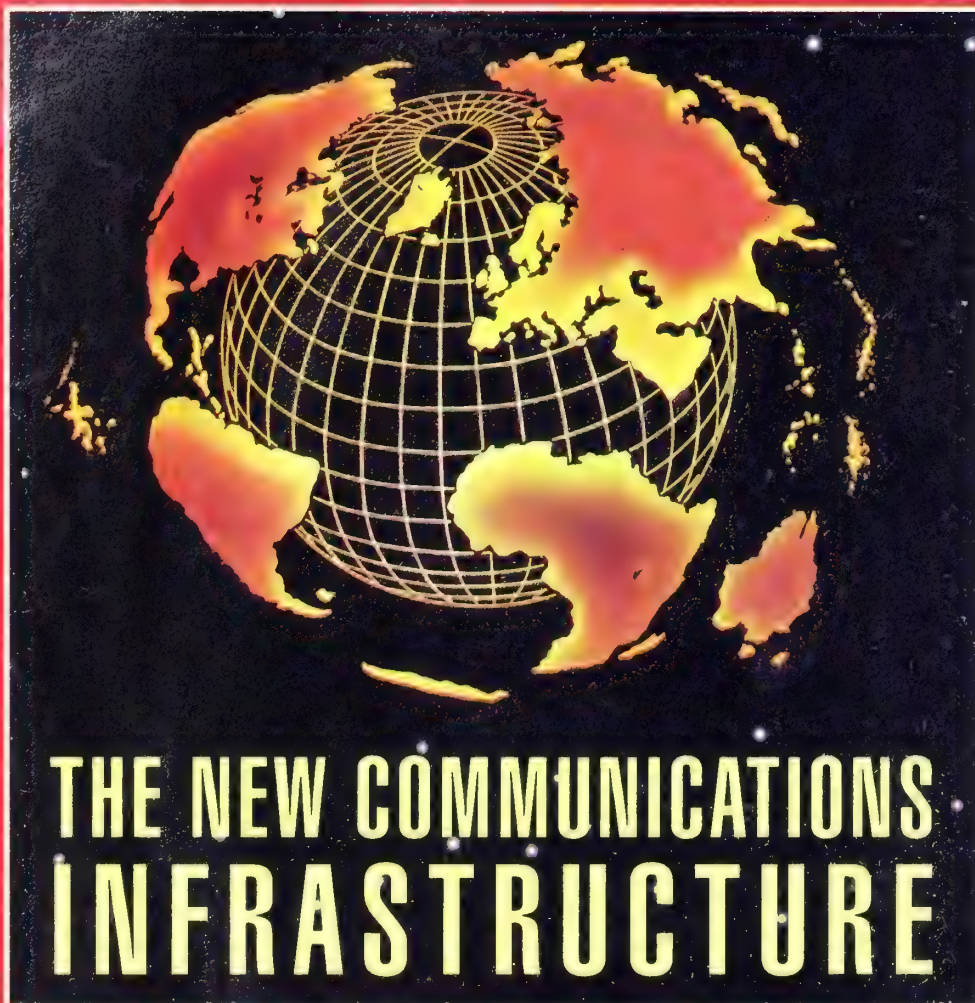


At a time when it has become fashionable for car companies to hop on the safety bandwagon, we thought you'd like to know who built the bandwagon. And when it was built. In the car business, you lead, follow or get out of the way.

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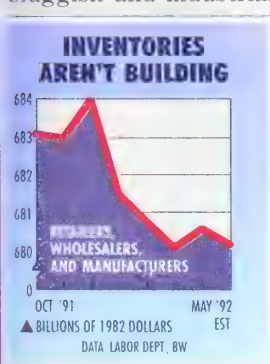
SEPTEMBER 16-17, 1992, MCGRAW-HILL HEADQUARTERS, ROCKEFELLER CENTER, NEW YORK

BusinessWeek

INVENTORIES ARE CASTING A VOTE OF NO CONFIDENCE

At this stage of the business cycle, the recovery process should be moving along without a hitch. Consumers should be gathering goods off store shelves and thus prompting retailers to rebuild inventories. Manufacturers should be busy making the goods to restock warehouses, providing needed increases to production and payrolls.

But in these dog days of summer, the recovery mechanism has hit a snag: the reluctance of businesses to rebuild inventories. Consumers are buying, but only at a modest pace. And businesses seem so unsure of the recovery's strength that they are hesitant to restock their shelves (chart). Consequently, factory orders are sluggish and industrial production has stalled.



The absence of strong inventory rebuilding, along with hardly any growth in consumer spending, is a big reason why the second quarter's gross domestic product grew below the 2.7% annual rate of increase posted in the first period. It is also why the recovery in industrial output hasn't been as robust as in past upturns.

The lack of another type of stockpiling partly explains the stagnation in the labor markets: Service industries aren't building up their payrolls. The inventory of service producers is not services. It is the workers who provide those services. And as long as this sector, which employs more than three-fourths of all workers, continues to slim down and cut costs, job growth will not provide a strong push to consumers' income and spending.

AUTOS AND HOUSING WILL LEND A HAND

The recovery process is still in gear—it's just stuck in low gear. Further modest growth in GDP seems assured in the third quarter. Consumer buying begins the current quarter at a high level compared to the second quarter. Also, auto production will keep factory output moving ahead, and lower interest rates will help housing.

But the kick from inventory rebuilding that typically gives recoveries a big boost is missing. First-quarter liquidation of inventories turned out to be far less than first measured. That, plus slow restocking in the second quarter, implies that the swing in inventory growth supplied only a moderately positive lift to last quarter's GDP growth. Meanwhile, sluggish consumer spending suggests that overall demand barely grew.

Inventories rose a scant 0.1% in May, and adjusted for prices, real inventories have fallen in four of the last five months. Retailers actually cut their stockpiles in May by 0.3%. That caution undoubtedly reflects the recent sluggishness in retail buying.

All this fell back on goods producers in June. Industrial production in manufacturing, mining, and utilities dropped 0.3% in the month, reflecting sizable cutbacks in auto assemblies and output of construction supplies (chart). And the industrial operating rate dipped from 78.9% to 78.5%. Both drops were the first since January.

Despite the June weakness, however, industrial production should continue along a rising trend. Output rose at an annual rate of 4.5% last quarter after falling 2.9% in the first. In the third quarter, Detroit is beefing up its production schedules, and construction should perk up in a lagged response to lower mortgage rates.

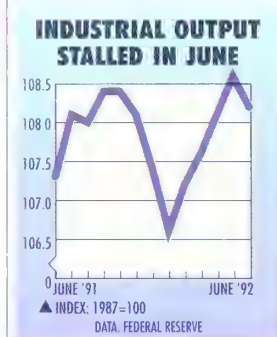
THE FED CAN IGNORE INFLATION FOR NOW

The disappointingly slow pace of recovery must be weighing heavily on the mind of Federal Reserve Board Chairman Alan Greenspan as he prepares for his semi-annual testimony on monetary policy on July 21 and 22. Greenspan will have to forecast the outlook for the economy and give the central bank's preliminary target ranges for money growth for 1993.

His biggest task: explain why money growth has fallen through the lower end of its current targets. Greenspan must also address the risks to the recovery of below-target money growth. And he will have to reconcile the apparent inconsistency between the current pace of M2 and the Fed's forecast for economic growth.

It will not be easy. A large cut in the federal funds rate in December, 1991, has done little to accelerate the growth of the Fed's favorite measure of money, M2. In fact, M2 has fallen some \$35 billion since it peaked in early March. That slide included a large \$7.3 billion drop in the last week of June, which placed M2 some \$34 billion beneath the low end of its target range of 2.5% to 6.5% annual growth for 1992.

Given the combination of weak money growth and a sluggish economy, further Fed action cannot be ruled out—particularly since inflation is becoming less and less of an issue. Price pressures just are not a problem for this moribund economy. In June, consumer prices

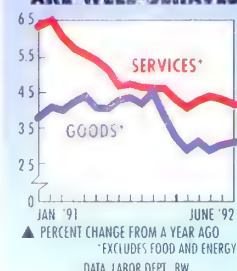


Business Outlook

rose just 0.3%, while producer prices of finished goods advanced by only 0.2%.

Excluding food and energy, the core rates of inflation are even less of a threat to the economy. Core producer prices fell 0.1% in June and are up only 2.5% from a year ago. And consumer prices, excluding food and energy, rose by just 0.2% last month, for a yearly gain of 3.8%.

CONSUMER PRICES ARE WELL-BEHAVED



The airfare wars in early June brightened the inflation performance for the month. The average cost of air travel plunged 6.5%, while the prices of apparel, tobacco products, and toiletries declined as well.

But it isn't just inflation in goods that is trending lower. The pressures on service prices are also receding. Led by a slowdown in housing costs, the

annual core rate of inflation in services stands at only 4.1%. That's down considerably from 5.4% during the previous year (chart).

For now, there is little reason to believe that price pressures will reignite anytime soon. Wage gains will remain extremely modest in the face of lackluster labor markets. And weak demand means businesses are unlikely to risk losing customers by raising prices.

A FAINT RINGING OF CASH REGISTERS

The lethargic pace of spending, however, is why businesses are so wary about making commitments in the areas of inventories and jobs. That's especially true for companies catering to consumers—whose spending accounts for two-thirds of the economy. After sharply cutting their spending in March, consumers have headed back to stores. But the pace of spending is very modest.

In June, retail sales moved up by 0.5%. Coming on top of gains in April and May, retail sales have recouped all

of the steep 1.2% decline in March (chart). Because of that loss, store receipts started off the second quarter at a big disadvantage. And after adjusting for inflation, retail volume was down slightly last quarter.

The high level of buying in June, though, means that retail sales should post a gain in the third quarter, compared with the second. New U.S.-made cars sold at a 6.5 million annual rate in early July. That's down from June's pace of 6.8 million, but still respectable.

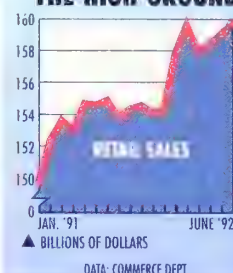
Another good sign for future shopping is the sharp drop in mortgage rates, which should rouse the soft housing recovery. Increased home sales will help spur buying of furniture, appliances, and building materials—retail categories that stumbled in the second quarter.

In addition, consumers who missed out on refinancing their mortgages in January may now take advantage of the latest drop in rates. With the average rate of a 30-year fixed mortgage now at 8.21%, homeowners who refinance will see their monthly payments drop significantly.

In addition, retail sales in June may have taken an indirect hit from the airlines' price war. Consumers shelled out about \$2 billion for cheap tickets in early June, leaving less money for retailers. And since airfares are included in outlays for services, the airline skirmish suggests that the June report on overall consumer spending, due out on July 31, could look very healthy.

Some better economic news would provide cool relief to the central bank, which watched as the recovery hit a snag in the spring. The recent disappointing signs don't add up to a triple dip. But until the recovery gets some pickup in jobs or the money supply, this economy faces anything but clear sailing in the second half.

RETAILERS REGAIN THE HIGH GROUND



THE WEEK AHEAD

FEDERAL BUDGET

Wednesday, July 22

The U.S. government will likely report a small \$1 billion surplus for June, say economists surveyed by MMS International, a unit of McGraw-Hill Inc. The federal budget is usually in surplus in June because quarterly tax payments by corporations and some individuals boost revenues. However, problems in payments made by the Resolution Trust Corp. last year caused a \$2.6 billion deficit in June, 1991.

INITIAL UNEMPLOYMENT CLAIMS

Thursday, July 23, 8:30 a.m.

New filings for state unemployment benefits may very well bounce up to an

annual rate of 430,000 for the week ended July 11. But that is because many economists expect jobless claims to fall close to 400,000 for the week ended July 4, when state offices were closed to observe Independence Day. On a four-week moving average, which smooths out the trend in claims, people continue to file for benefits at a 410,000 rate—a level consistent with an extremely mild recovery. In addition, the plateau in jobless claims suggests little improvement in the nation's 7.8% unemployment rate.

CAR SALES

Thursday, July 23

New domestically made cars likely sold at an annual rate of 6.8 million during mid-July. Sales surged to a 7.5 million

pace in late June, and then came in at a 6.5 million clip in early July. Despite the lackluster performance in other retail buying, consumers still seem willing to head to car dealers, kick a few tires, and buy or lease a new car.

DURABLE GOODS ORDERS

Friday, July 24, 8:30 a.m.

New orders taken by durable-goods manufacturers likely increased by 1% in June, after a 2.1% drop in May, say the MMS forecasters. The gain will be led by a pickup in auto demand and defense orders. The expected rise in new demand probably wasn't strong enough to reverse the downturn in unfilled orders. The backlog of orders has dropped for nine consecutive months.

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Connecting You With Tomorrow

JULY 27, 1992

WHAT COULD STOP CLINTON

IT'S THE DEMS' BEST CHANCE IN YEARS. BUT . . .



The cheers from Madison Square Garden had barely stopped when Democratic Presidential nominee Bill Clinton and his running mate, Al Gore, boarded the bus for tomorrow. On July 17, the duo was set to lead a motley caravan headed for the heartland: Mount Holly, N.J.; Utica, Ohio; Evansville, Ind.; and Vandalia, Ill., each a small-town pocket of America that lies off the interstate—and of the political road map of traditional Democrats.

Clinton's ultimate stop, Democrats hope, is 1600 Pennsylvania Ave. And after the July 13-17 lovefest in New York City—one of the most unified conventions in memory—they have reason for optimism. Clinton has vaulted past independent Ross Perot and edged ahead of President Bush in some polls. More important, his centrist message seems to be registering with middle-class voters weary of Bush's ineffectual economic leadership (page 30). "This election is about putting power back in your hands," Clinton said in remarks prepared for delivery on July 16. "It's about putting people first."

It would be easy to get carried away by the Democrats' well-choreographed political pageant. Featuring a shimmering white podium framed by a bank of high-tech video screens, the show was so seamless that at times it seemed more like a scene from the Country Music Assn. awards than a typically anarchic Democratic convention. But in reality, Clinton and Gore will have to fight hard to prevent their glittering New York production from bombing on the road. Here's why:

- Even though President Bush is on the ropes (page 28), he remains a formidable opponent with all the powers of incumbency. When they gather next month in Houston, Republicans will try to shred Democrats' claim that they have broken with their "tax and spend" past. Exhibit A: Clinton's economic plan, which raises taxes on the wealthy and foreign corporations by \$150 billion and targets \$200 billion for spending on infrastructure and investment incentives.

- Denied the economy as an issue, Republicans will subject Clinton to a brutal negative assault. Thanks to the furore over his alleged extramarital affairs, experiments with marijuana, and draft evasion, Clinton has given GOP commandos plenty of openings. Republicans will roll out a variation of their 1988 Boston Harbor number: Clinton will be cast as the

"failed governor" of a backwater state, an attack that could undermine his claims to be a credible agent of economic change. Vows a senior Bush strategist: "This campaign is going to get rough and tough."

■ Despite the show of unity in New York, Clinton could face problems energizing his Democratic base. Some core constituencies, notably blacks and liberals, are furious over Clinton's rough handling of Jesse Jackson and his lurch toward the political center. Says Howard University political science professor Ronald Walters, a key Jackson adviser: "Clinton's strategy risks turning off the black vote, and it isn't winning the white vote." A hint of future trouble: Black turnout was off sharply in the primaries. Without an enthusiastic black vote, Clinton and Gore have no chance of breaking through in the South and capturing key Northern industrial states.

■ To a huge extent, the two essential elements of a Democratic victory remain outside of Clinton's control. He needs the economy to stay spongy right up to November. That would ensure a debate centered on Bush's record rather than Clinton's character. The other concern is Perot's waning strength, underscored on July 15 by the abrupt departure of campaign Co-Chairman Edward J. Rollins.

★ Clinton faces a brutal assault from Bush—and he may still have trouble energizing his core constituencies



Because of the GOP's strong base in the South and West, few analysts think Clinton could best Bush in a two-way race. The Democrats want Perot to hang in, peeling off at least 15% of Bush's support. "Clinton needs Perot to split the white vote with Bush," says Earl Black, a University of South Carolina political scientist.

Perot's presence in the race is a mixed blessing, though, because a three-way struggle makes Clinton's strategy vastly more complicated. Clinton now has to puzzle out a shifting electoral map in which some states that are leaning Democratic could drift out of Clinton's reach, while formerly hostile states offer intriguing opportunities (map). "No one's been any good at figuring out how to

run a campaign under these conditions," says James Carville, Clinton's senior political strategist. "We're all flying by the seat of the pants."

If Clinton is to win in November, he'll have to do well outside of traditional Democratic bastions in the Northeast. Here's the outlook, region by region.

■ **The Northeast.** The Southern-fried combination of Clinton and Gore has run into a cultural wall in New York and New England. But the region's economic woes should drive many voters back to the Democrats. "Believe it or not, but we're actually close right now in New Hampshire," says Clinton pollster Stanley Greenberg. "That's because the whole region feels like a Third World basket case."

■ **The Heartland.** "The industrial Midwest is the real battleground," says Republican pollster Ed Goas. The Rust Belt took its economic hit in the 1980s and has escaped the worst of the current recession. Partly because the region has fared relatively well, Clinton's economic plan has yet to dazzle Midwesterners. Perot's get-tough trade policy, by contrast, plays well with Michigan auto workers. And Ohio has become solid GOP territory. But the Democrats have a good shot in Illinois. Clinton's pledge to restore "high-wage, high-skill" manufac-

★ CAN CLINTON MAP A VICTORY? ★



Top of the News

turing jobs will help with voters there.

■ **Song of the South.** You might think that the Democrats' "double Bubba" ticket would play well in Dixie. But the Deep South, anchored by Florida and South Carolina, remains Bush's strongest region. A recent Mason-Dixon Poll found that Clinton had the backing of only one in five Southern whites. Clinton and Gore have better prospects on their home ground in the mid-South. "If Perot stays at 15%, most of the South will be competitive," says pollster Greenberg. "The Democrats are dreaming," snaps GOP Southern operative Haley Barbour.

■ **The West.** Westerners have always had a visceral dislike of the preppy Bush. "They smell the East in him," says Paul Tully, political director for the Demo-

cratic National Committee. Up to now, Perot has been the biggest beneficiary of the region's rawhide populism, but Clinton is coming on. The Arkansan still has no chance in most Rocky Mountain states. But California, with 54 electoral votes, is the real prize. "If we don't win California, we don't win," says Clinton campaign Chairman Mickey Kantor. Gore (page 29) should improve Clinton's chances there and in the Northwest.

Although Clinton's electoral path is treacherous, he starts the last leg with the best prospects of any recent Democratic challenger. Four years of economic stagnation have eroded Bush's support. A virulent mood of anti-incumbent anger cuts against the President. And growing concern about abortion rights

could cost Bush the support of independent and Republican women. "The President hasn't crossed the threshold to defeat yet," says a top Administration official. "But he's getting close."

Close is not good enough for Democrats, who have seen many a post-convention jump in the polls fade under a withering GOP assault on their core values. Elated with their New York triumph, Clinton and Gore are campaigning with abandon. But they have miles to go and many crises to weather before they can swap their tour bus for first-class seats on Air Force One.

By Lee Walczak, Richard S. Dunham, Douglas Harbrecht, and Howard Gleckman, with Susan B. Garland and Christina Del Valle, in New York

HOW WILL YOU KNOW IF BUSH IS LOSING IT?



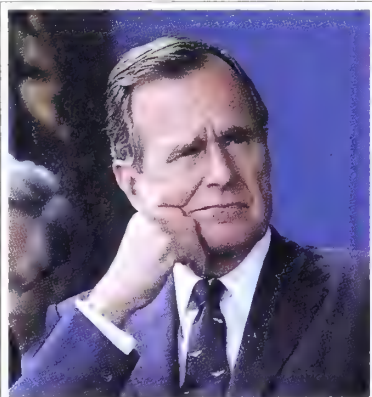
The Democrats may think they have George Bush on the run. And in a sense, they do.

But the President's summer retreat does not a fall rout ensure, especially when you consider that the Democrats have found a way to blow five of the past six Presidential contests. Most political analysts continue to believe that the November election remains Bush's to lose, and right now he seems to be doing everything possible to lose it. How will voters know if Bush is slipping irretrievably into deep doo-doo? It won't be hard, if you consider these only mildly improbable portents of disaster...

PEROT SURGES BACK. As Americans return from their Labor Day vacations, they are greeted by a revived, rip-snorting Ross Perot. Finally reconciled to the counsel of his latest batch of political advisers, the Texas billionaire hammers Bush with a huge national advertising blitz. The spots attack the President's economic record and lack of domestic vision, while stressing Perot's can-do approach. Drawing a sharp contrast with the bombast of the Democratic and Republican conventions, Perot-nistas stage a futuristic marvel, beaming their hero's image to a dozen satellite locations. Perot's "un-convention" attracts a huge national television audience. Resigned to a three-way

election, the Bush team readies a brutal negative barrage for use against Perot—despite misgivings that the assault could backfire.

THE ECONO-SWOON DEEPENS. Reacting to the news that the July unemployment rate rose 0.2 percentage points, to 8%, White House spokesman Marlin Fitzwater cracks that "nobody's perfect." Bush, appearing with Treasury Secretary Nicholas F. Brady and Council of Economic Advisers Chairman Michael J. Boskin, calls the news "troubling,"



★ **The omens:**
Bush slings more mud at Perot, the Street gets scared, Jim Baker goes to Bosnia

but adds testily: "Seven economic indicators are trending up, only three are heading down. Look—if the American people had studied Econ 101, they'd understand that we're in recovery mode, not a recession." Within days, polls show that public confidence in Bush's handling of the economy is heading for single digits.

THE MARKETS SHORT BUSH. Reacting to the Federal Reserve's September decision to cut the discount rate by an additional quarter-point, markets sense panic in Bushdom. Long-term interest

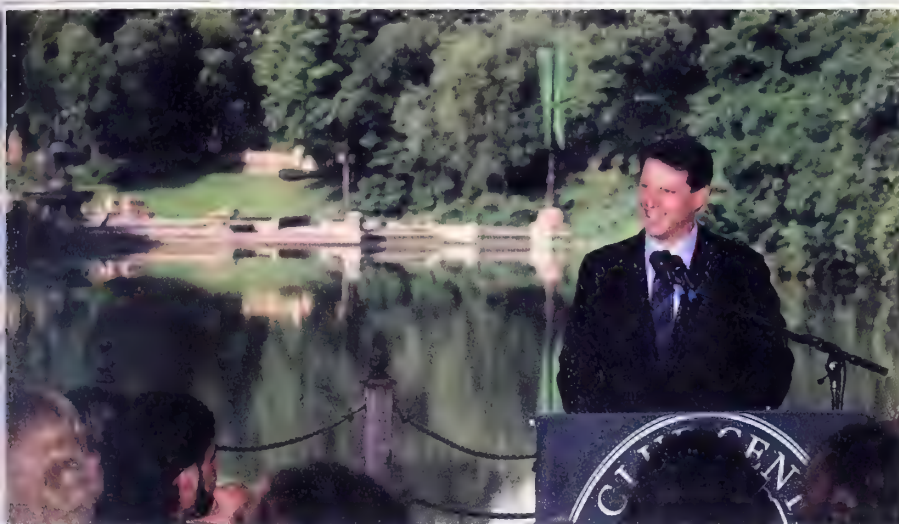
rates spike, driving another nail in the recovery's coffin. Perot running-mate L. William Seidman scoffs at the economic necessity of the Fed's move, labeling it "the September surprise." Portfolio managers, hedging against a Bill Clinton victory, put a "buy" on telecommunications and construction stocks, presumed beneficiaries of a major new push to rebuild America's infrastructure. A few maverick money-runners, figuring the ever inquisitive Perot has the edge, begin snapping up

shares in Pinkerton Inc. Treasury chief Nick Brady reassures investors: "Markets go up. Markets go down."

PANIC CITY. Longtime friends of President Bush begin a hunger strike outside the office of Secretary of State James A. Baker III. "We're not leaving until Jim agrees to stop all this business with Bosnia and goes over to get a grip on things at the campaign," says Bush intimate Robert A. Mosbacher, reaching into his pocket for the last

of his hoard of pork rinds. Baker, whose political instincts rarely permit association with a losing cause, politely declines, saying: "The orphans of Sarajevo need me more than the campaign does. The President's reelection effort is in good hands." Former President Ronald Reagan admits that he has sharply reduced his scheduled appearances for the Bush-Quayle ticket, citing a conflict with a speaking tour of Japan.

By Lee Walczak, Douglas Harbrecht, and Howard Gleckman in New York



ENVIRONMENTAL ACTIVIST: GORE ADDRESSES THE SIERRA CLUB IN NEW YORK'S CENTRAL PARK

WHAT CLINTON EXPECTS FROM 'SENATOR SCIENCE'

Al Gore's vision of a higher-tech America is a key part of the campaign



In photographs, they look almost like twins: two Bible Belt baby boomers, white, a little pudgy, serious to a fault. But there is more to Bill Clinton's selection of Al Gore as his running mate than a concerted appeal to the South or a desire for a "new generation" ticket. Clinton is a fan of Gore's high-tech industrial strategy and hopes to use the Tennessee senator's Capitol Hill connections to help turn his ideas into law.

What Gore and Clinton seek is nothing less than a fundamental overhaul of government's role in the economy. They believe Washington should become a catalyst for job creation and private investment. That kind of talk has new Democrats cheering—and Bush operatives sharpening their knives.

Gore is full of ambitious ideas. He has long favored creation of a high-speed "computer superhighway" linking universities, research labs, hospitals, schools, and factories. The Bush Administration liked the concept so much that the White House hijacked it, pushed legislation through Congress late last year—and shut Gore out of the signing ceremony. Undaunted,

Gore wants to go on to digital libraries, a national research-and-education network, an environmental research-and-development program, and a larger role for government in creating civilian technology.

RUSTING DINOSAURS. The new thrust is welcomed by young Democrats put off by their party's identification with shrinking industrial unions and Rust Belt manufacturing dinosaurs. "We need an economic game plan—a technology policy and defense conversion plan," says House Majority Leader Richard A. Gephardt (D-Mo.). "It's going to take the cooperation of business, government, and labor to pull it off."

The Clinton camp hopes Gore's economic activism will be a plus in any debate with Vice-President Dan Quayle. Until he was tapped by Bush in 1988, Quayle was an obscure Midwestern senator beloved by conservatives. By contrast, Gore has worked hard to establish an image as a Big Think futurist, knowl-

edgeable about everything from biotech to fiber optics.

And while Quayle's Council on Competitiveness has fought new clean-air regulations, Gore led the Senate delegation to the Rio de Janeiro Earth Summit and is the author of *Earth in the Balance: Ecology and the Human Spirit*, which calls for stronger environmental controls. The impatient Gore—he dropped out of both divinity school and law school and ran for President in 1988, before he'd finished his first Senate term—clearly has his own agenda. "The task of saving the earth's environment must and will become the central organizing principle of the post-cold-war world," Gore told BUSINESS WEEK.

This kind of talk has occasionally led Gore's supporters to call him Senator Science. But his detractors have another name: "International environmental extremist," charges Republican Party Chairman Richard S. Bond.

Gore's industrial-policy ideas also draw GOP fire. Republicans complain that his fondness for intervention would lead to futile attempts to pick winners and losers. "I'd rather have a President who knows nothing than one who listens to Al Gore," grumbles William F. Martin, a former Reagan White House national security aide dispatched to New York to sow doubts about Gore.

Conservatives' unhappiness with Gore will only intensify when he hops off the campaign bus to attend to Senate chores. At the top of his agenda: playing a major role as the Senate Armed Services Committee takes up legislation to shift weapons research and production to civilian technologies.

'DRAMATIC SHIFT.' Clinton is a big fan of schemes to convert military production capacity to civilian use. And defense-conversion schemes won't hurt the ticket a bit in vote-rich California, where defense cutbacks have battered the economy. Gore disagrees with some Democratic colleagues who want to slow the decline in military spending to protect defense jobs. Instead, he favors "a dramatic shift in federal priorities and thinking" toward an economic, not military, battleground.

The high-tech industrial policy favored by Clinton and Gore presents GOP gunners with an inviting target. But with the economy stagnant and defense cuts taking a heavy toll on manufacturing jobs, the "double Bubbas" have a real chance to turn a potential liability into a winning edge.

By Paul Magnusson in New York, with Peter Hong in Washington

★
AL GORE'S HOT ISSUES
★

As Clinton's running mate, the Tennessee senator will stress his plans for:

COMPUTER SUPERHIGHWAY linking universities, research labs, hospitals, and factories along a nationwide fiber-optic network

ENVIRONMENTAL CLEANUP, which Gore wants to capitalize on by promoting a new industry: environmental technology that could be exported worldwide

HIGH-TECH INDUSTRIAL POLICY using government funds to develop new manufacturing technologies that small and midsize companies could share

DEFENSE CONVERSION to speed shift in civilian production from weapons to nonmilitary products

THE DEMOCRATS CAN WIN— BUT NOT WITHOUT THESE PEOPLE

Blacks, pro-choicers, 'Reagan Democrats'—Clinton needs them all. Here's a sampling



Can Clinton win? Yes, if he corrals the voters who deserted the Democrats after 1976. From Northern cities to Southern

towns, many "Reagan Democrats" are giving the Arkansas governor another look. Clinton must also turn out black and pro-choice voters. Here's a look at several voters considering Clinton:

'PICKING AL GORE WAS A GOOD MOVE'

Steven Leroy Waldrop is the kind of voter whom Bill Clinton would love to win over. Fed up with President Bush and leery of Ross Perot's lack of political experience, Waldrop is giving Clinton a second look. But the 39-year-old builder from Brooks, Ga., a tiny town about 40 miles south of Atlanta, won't be an easy sell.

The last ballot Waldrop cast was for Ronald Reagan in 1984. Since then, Waldrop says, he has had no interest in politics. "To tell you the truth, things seem so corrupt now, I don't know if there's a way to turn it back," he says.

The Georgia native says he also has been too busy for politics. Waldrop and his brother own a construction company, and thanks to a big subdivision contract and other jobs in this growing area, Waldrop managed to gain ground despite the slow housing market.

Nevertheless, he isn't happy with Bush's handling of the economy. "I'm kind of disillusioned with the tax picture," he says. "I'm sick of the middle class carrying the burden for this whole country." The Democrats' appeal to the middle class has caught his attention. Waldrop also likes the idea of voting for a winner. Now that Senator Al Gore is filling out the ticket, Waldrop figures the Democrats will carry the South. "Picking Al Gore was a good move," says Waldrop. "He's a straight shooter."

Clinton's liberal social views are another matter. "I'd like to see strict laws against abortion," he says. "This is where I agree with Bush. It's going to

be hard to vote for Clinton knowing how he feels about that."

For now, Waldrop remains undecided. But if folks in the nearby town of Senoia, Ga., are any indication, he doesn't have much company. There, disillusioned voters are flocking to Perot. "People want change," says local hardware store owner J. B. Hutchinson Jr., who won't say how he'll vote. "That's why Perot is a phenomenon around here." Comments like that suggest Clinton and Gore had better not assume they've sewn up the South.

By Walecia Konrad in Brooks, Ga.

A RELUCTANT VOTE FOR 'JIMMY CARTER WITH MOUSSE'

Ed Crayton voted Democratic in 1984 and 1988, and come November, he'll pull the lever for Bill Clinton. But only be-

cause the 33-year-old Louisiana-born San Franciscan views the Democrat as the lesser of three evils. "I have to vote for Clinton," he says. "It's like taking castor oil."

Crayton, a lifelong Democrat who works for Goodby, Berlin & Silverstein, a San Francisco advertising agency, calls Clinton "Jimmy Carter with mousse" and mocks his claim that he didn't inhale when he tried marijuana at Oxford. "That was just stupid," he says. The reefer madness reinforced his sense of mistrust. "Just when you think you've got him rehabilitated," Crayton smiles, "your car's missing."

Another thing that bugs him about Clinton—not to mention Tipper Gore, his running mate's wife—is their low opinion of rap music. Crayton thinks rap highlights the poor state of race relations, which he considers a top issue,

FACES OF A DISILLUSIONED ELECTORATE



▲ **STEVEN WALDROP** hasn't voted since the 1984 election. "To tell you the truth, things seem so corrupt now, I don't know if there's a way to turn it back"

► **ED CRAYTON** is a lifelong Democrat and says he'll pull the lever for Clinton and Gore in November. Still, he says, "it's like taking castor oil"



along with abortion, the economy, and AIDS. "If you listen to rap music," he says, "you can find out what young black Americans are thinking."

The other candidates look even worse to Crayton. He wouldn't for a moment consider voting for George Bush. But his first impression of Ross Perot was positive. "Texans aren't slick," he says. "They swagger." And despite Perot's blundering on racial issues, he believed the billionaire near-candidate "empathized with the disenfranchised."

But Perot lost Crayton's vote when he said he'd fire homosexuals in high government posts. Crayton saw that as "an excuse to weed out people they don't like." Besides, he says, Perot is scary. "I'd be so afraid we'd all wake up with a dress code one day," he says.

In the end, Crayton offers a tepid endorsement of Clinton. Behind his "weird personality," Crayton believes, is a man with some vision for solving the nation's ills. And that's a lot more than he can say for Clinton's two opponents.

By Alice Cuneo in San Francisco

HELL WILL FREEZE OVER BEFORE I VOTE FOR ONE OF THE OTHER TWO

Alice Schuman would prefer a whole new set of candidates. A visiting nurse in Ann Arbor, Mich., Schuman gripes: "We've got three choices: Clinton, who's too stupid to inhale; Bush, who whines

constantly; and Perot, who is so irritating that GM paid him three-quarters of a billion dollars not to come to their board meetings." Still, as one who usually votes Democratic, the 39-year-old is leaning toward Bill Clinton. "I always vote," she says. "And hell will freeze over before I vote for one of the other two."

Abortion rights are foremost in her mind right now. George Bush's anti-abortion stance rules him right out, and she doesn't trust Ross Perot's pro-choice pronouncements. "He's a salesman," she says. "He's going to tell you whatever you want to hear so he can close the deal." She's glad that Clinton is pro-choice, but she wishes he hadn't approved an Arkansas bill requiring minors to obtain parental consent before having an abortion.

Last fall's Clarence Thomas-Anita Hill hearings still reverberate for Schuman. "At the time, I was so angry, I swore I'd never vote for a man again"—a vow she has since modified. "What gives me hope about Clinton and Gore," she says, "is that they have wives with brains and careers, and they respect that." On women's issues, Schuman dismisses Bush out of hand, and she remains wary about Perot.

Schuman worries, too, about racial strife, poverty, the economy, and education. To tackle these diverse issues, she wants a leader who knows how to make the system work. Plus, she wishes there

were a candidate gutsy enough to call for sacrifice from the electorate. "Perot is the only one who could say something like that, but he doesn't have it in him."

At least Clinton could get things done on Capitol Hill, she figures. And with the speeches at the Democratic National Convention still ringing in her ears, she has some hope for change. In this election, that's likely to put Schuman in Clinton's column, if only by default.

By Kathleen Kerwin in Ann Arbor, Mich.

IF REAGAN WAS STILL AROUND, I'D VOTE FOR HIM

Bill Clinton's message of change won't lead all blue-collar ethnic voters back into the Democratic fold. Just ask Gary and Jan Chibicki.

Lifelong residents of Hegewisch, a Polish neighborhood on Chicago's South Side, the Chibickis see Clinton as little more than an old-style machine politician. "There's a very, very good chance I'm not going to vote for Clinton," says 38-year-old Gary Chibicki, a union man who earns about \$15 an hour as a maintenance electrician at a local chemical-storage company. "You just have to look into his eyes and wonder what he might be hiding."

Jan Chibicki, 37, doesn't trust Hillary Clinton, either. "I don't think his wife should have anything to do with running the country," says the homemaker and mother of two. "Hillary Clinton already thinks she's President, the way she talks."

The couple, who voted for George Bush in 1988, were once loyal Democrats. Gary abandoned the party in the early 1970s, and Jan turned to the GOP in the last Presidential race. "If Reagan was still around, I'd vote for him," says Gary. "He was forceful."

That's a quality lacking in both the Democratic and Republican candidates, they say. Bush "should have done the job right" by removing Saddam Hussein from power after the gulf war, Gary says. "Sometimes I lean toward Bush, but he's let the economy get way out of hand, and he's spending too much time in foreign lands."

Ross Perot, the self-styled outsider, may get Jan's vote. "We need someone fresh," she says. "Someone who's not into politics." Not to mention someone whose marriage is not the stuff of tabloid headlines. "If [Clinton] can do that," says Jan, referring to the allegations of adultery bedeviling him, "he can do a lot of things against the country."

The Chibickis don't expect much from any candidate. "It's not going to get better in the next four years," predicts Gary, "no matter who gets in."

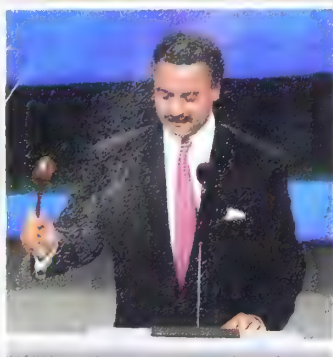
By Julia Flynn in Chicago

NET AND GARY CHIBICKI, once loyal Democrats, see little choice. "It's not going to get better in the next four years," Gary, "no matter who gets in"

ICE SCHUMAN is leaning toward Clinton but says she wishes there were a candidate with enough guts to call for sacrifices from the electorate



CONVENTION TIDBITS: A SQUABBLE, PARTIES GALORE, AN ARM-TWISTING AMBASSADOR . . .



CLINTONITES CRITICIZE BROWN'S HANDLING OF PARTY FUNDS

★ Convention euphoria hasn't prevented a nasty squabble over money between the Democratic Establishment and the triumphant Clinton campaign. By law, from now on Clinton can spend only public funds. But the Democratic National Committee can spend \$10.3 million on behalf of Clinton and an unlimited amount in get-out-the-vote and "voter education" efforts. But Clintonites contend that the DNC executive committee—packed with liberal supporters of Jesse Jackson and Michael S. Dukakis in 1988—

just wants to throw parties for friends. And they gripe that DNC Chairman Ronald H. Brown has been slow to help Clinton retire \$4 million in debt left from the primary campaign.

The unhappy Clintonites are considering a hostile takeover of the party's fund-raising apparatus. "I was hoping for a merger," says Rahm Emanuel, the Chicago fundraiser detailed by the Clinton campaign to the DNC last month. "We may have to make this an acquisition." Meantime, Emanuel has set a rigorous money-raising schedule to reach out to new contributors. The assault was scheduled to begin the night of Clinton's acceptance speech in New York—to be followed by soirees in Houston, San Francisco, Chicago, and New Orleans. Rahm aims to raise \$40 million before November.



★ Republicans may be the party of big business, but the Democrats still wangled corporate sponsorship for convention events.

Delta Air Lines, Dillon Read, Pfizer, and Merrill Lynch were among those hosting parties for state delegations. Bear Stearns & Co. feted three states—even though chief Alan Greenberg is co-chairman of New York for

party last fall "when no one was competing" for Clinton's home state. "We asked for a small state," he deadpans.

★ Labor contingents at Democratic conventions used to be dominated by burly auto workers, miners, and machinists. No more. The labor caucuses are made up mostly of teachers and social workers. Of the 1,028 labor delegates, nearly 700 came from three public-employee unions—the National Educa-



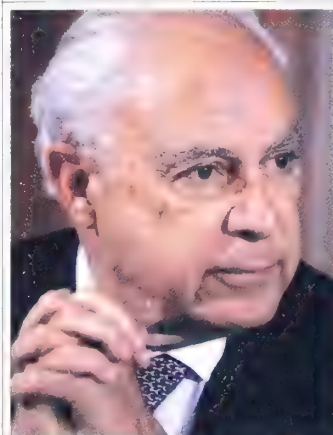
BEAR STEARNS TOSSED A BASH FOR DELEGATES AT THE PUBLIC LIBRARY

Perot. Wachtell, Lipton, Rosen & Katz snagged the prize—hosting Arkansas delegates, plus Hillary Clinton, at a barbecue in the Brooklyn Botanic Gardens. Senior litigation partner Bernard Nussbaum says he arranged the

tion Assn., the American Federation of State, County & Municipal Employees, and the American Federation of Teachers. All three declared for Clinton early. Most big industrial unions put their chips on the liberal Senator Tom Harkin of Iowa.

The growing political clout of the public-employee unions poses a problem: Clinton must convince the public that he can make government work. But public workers are likely to resist any real reform.

★ Ross Perot seems to be winning the ever-more-important campaign slogan race, according to House Majority Leader Richard A. Gephardt (D-Mo). Perot's "I'll Fix It" is a far better line than the Democratic Convention's theme—"Putting People First"—he says.



STRAUSS LOBBIED FOR RUSSIAN AID DURING CONVENTION WEEK

★ Could super-pol Robert S. Strauss sit quietly in Moscow while fellow Democrats celebrated in New York? Hardly. George Bush's favorite Democrat, the ambassador to the Russian Federation, dipped one toe into the partisan proceedings. On July 13, just before the parlay began, Strauss appeared at a coffee given by friends at New York's Waldorf-Astoria. But instead of playing his former role as fundraiser par excellence, Strauss says he boosted chances for passage of the Administration's Russian-aid package by twisting the arms of the Democratic lawmakers in attendance. "Hell, I think I got four or five votes out of it," he says, adding that he cleared the trip with Secretary of State James A. Baker III.

MAKING A CHOICE?

The National Abortion Rights Action League is officially nonpartisan, but NARAL Executive Director Kate Michelman nonetheless made a prominent appearance at the convention podium during a floor demonstration in support of the abortion-rights platform plank. And NARAL plans to campaign extensively on behalf of pro-choice candidates in large swing states such as Pennsylvania and Illinois, which, as it happens, have also been targeted by the Clinton campaign.

AIRBUS' BRYAN, LEAHY, AND BOYD: THE TEAM MADE BIG CHANGES TO CREATE A MAJOR PLAYER IN THE U.S.



NOW, AIRBUS IS CRUISING COMFORTABLY

Its \$3 billion deal with United is proof that it's here to stay

Every time Airbus Industrie wins a U.S. aircraft order, talk focuses on finance: How sweet was the deal? And did European government subsidies help the consortium make an unbeatable offer? Airbus denies it, but the chatter ignores a more compelling story: In less than a decade, Airbus Industrie of North America Inc. has gone from an inept marketer with 20 salespeople, one plane to sell, and poor customer service, to a powerhouse combination of technologically sophisticated aircraft and top-notch service, as well as the famous, too-good-to-be-true financing. The result? Airbus is now a deadly serious competitor in North America.

Airbus' hot new deal with United Airlines Inc. is proof. United in early July agreed to lease 50 narrowbody A320s from Airbus and took options for 50 more. UAL cut the \$3 billion deal because it liked the planes—their range, speed, comfort, technology, and fuel efficiency. But it got a lot more than new jet technology. Airbus will train United pilots and mechanics. The clincher: Airbus will allow United to walk away from its lease on just 11 months' notice, insiders say, which reduces the

airline's financial liabilities. With a BBB-credit rating from Standard & Poor's Corp., UAL needs the help.

For Airbus, the deal means that virtually every major U.S. airline—USAir Inc. is the exception—now flies Airbus jets. Even better, it makes the A320 a real player in the North American market. The jet has had three accidents, and controversy still swirls over its computerized fly-by-wire system, which keeps the plane on course, but takes much of the decision-making out of pilots' hands. United's purchase "confers credibility on the A320 in a fashion that Airbus couldn't have done otherwise," says James M. King, chief executive of GPA Leasing in Ireland.

It has been a long trek. Until about

1985, Airbus tried to crack the U.S. market with a plain technology strategy. To make it work, Airbus virtually gave planes away—to ailing Eastern Air Lines Inc. in 1977. Then it sat back, assuming other U.S. airlines would beat a path to its door. Problem was, U.S. aircraft buyers and sellers are part of an old-boy network. Huge bets on equipment are counterbalanced by promises of financing help and service. Airbus didn't know how to play, and its airplanes came with few service guarantees. The strategy bombed, leaving Airbus officials "in a state of shock," says John J. Leahy, Airbus' senior vice-president for marketing.

'WOEFUL THIRD.' But North America accounts for 45% of the world market, and no manufacturer can be a major player without being a major player there. So Airbus regrouped. It's first step: Get local. In the mid-1980s, North American Chairman Alan S. Boyd hired James A. Bryan Jr., an airline leasing vet with solid industry contacts, and Leahy, an experienced salesman (table). They hired salespeople with experience in the fast-moving U.S. market.

Service came next. In the past, Airbus was hard-pressed to compete with Boeing Co., which could fix a plane within hours, anywhere in the world. Airbus had only a small service facility in the U.S. Airlines that needed parts often had to wait 24 hours to get them from France. Pan Am even threatened to return planes to Airbus, citing the parts problem. Bryan made big changes, opening a mechanics' training center and developing a parts distribution center with \$125 million in stockpiles.

The moves paid off. American Airlines Inc., which became a customer in 1987, used to rank Airbus a "woeful third" out of its aircraft suppliers, says Robert W. Baker, American's executive vice-president of operations. It trailed its competitors' delivery times on parts, quality of material, and pricing of material. Now, Airbus is No. 1. "At our behest, urging, and pounding, they set out to fix that problem," Baker says.

With United in its fold, Airbus has really come of age. Or so figures 51-year-old CEO Jim Bryan. That's why, he says, he's leaving. Days after Airbus announced its United deal, Bryan announced his resignation. His successor's job: to keep those hard-won customers coming back for more.

By Dori Jones Yang in Seattle, with Seth Payne in Washington and Stewart Toy in Paris

MARKETING MAGIC: HOW AIRBUS INVADDED NORTH AMERICA

FIRE-UP FLEET Responding to customer needs, Airbus in 1985 began adding longer-range, more powerful, and fuel-efficient planes to its product line

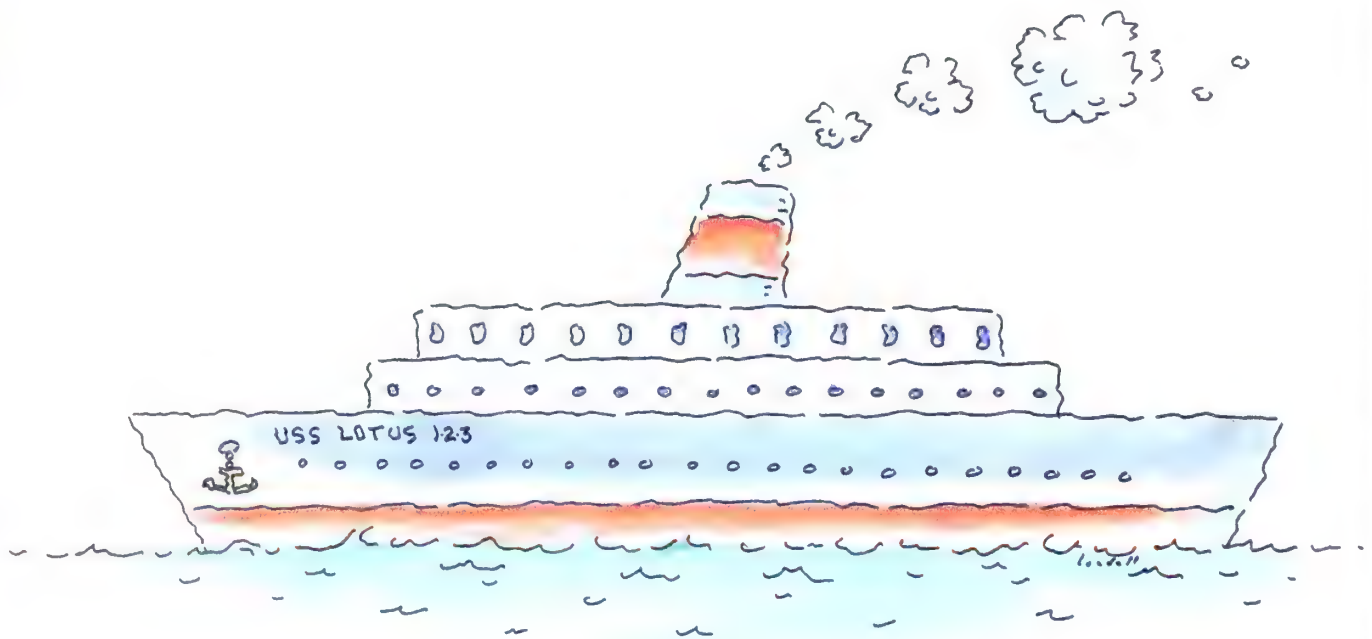
INSIDE TRACK Chairman Alan Boyd expanded sales staff with industry insiders, including James Bryan, an aircraft leasing vet, and John Leahy, a former Piper Aircraft salesman

KING CUSTOMER In 1988, Airbus opened a mechanics' and pilots' training center in Miami and, in 1991, a new parts warehouse at Washington's Dulles Airport. Both are crucial to a new emphasis on quick, reliable service

EASY TERMS Airbus' innovative financing drew new orders. In 1990, Northwest got a \$500 million low-interest loan in exchange for an order. The recent United deal lets the airline walk away from its lease with just 11 months' notice

DATA: BW

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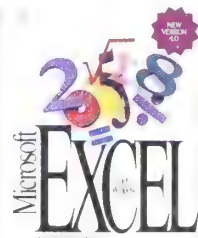
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Commentary/by Lisa Driscoll

A BETTER WAY TO HANDLE WHISTLE-BLOWERS: LET THEM SPEAK

It's becoming a staple on the front pages. An employee—or, more often, a former employee—of a big corporation goes public with charges that the company has been playing dirty. Next step: a lawsuit that sets out the details of the misconduct and charges that the whistle-blower was at best ignored and at worst harassed, demoted, or fired.

In the latest such story, General Electric Co. on July 22 is expected to plead guilty and agree to pay a \$70 million fine to resolve a Justice Dept. action first brought by whistle-blower Chester L. Walsh. The feds allege that GE diverted some \$40 million in U.S. military aid to an Israeli general who bought aircraft engines.

That's just one case. In April, the Justice Dept. joined in an action against Teledyne Inc., originally brought by two whistle-blowers. They charged that Teledyne falsified tests on relay components used in spacecraft and weapons. Teledyne won't comment. Then there's GE's other big headache. Former GE executive Edward J. Russell alleges that GE tried to fix prices for industrial diamonds. Russell claims he lost his job because he aired the charges to his boss, a senior vice-president. Russell's wrongful discharge suit led to a federal grand jury investigation. GE disputes Russell's charges and says he was fired for poor performance.

NO CONFIDENCE. Doubtless, some whistle-blower suits are brought by employees with an ax to grind. Others may be in search of a big payoff: Under the False Claims Act, whistle-blowers can receive up to 25% of any money recovered by the government. Christopher M. Urda, for instance, was awarded \$7.5 million on July 14 for providing evidence that his employer, then a unit of Singer Corp., bilked the Pentagon of \$77 million in the 1980s.

But the number of such



RUSSELL SAYS HE WAS FIRED FOR AIRING PRICE-FIXING CHARGES AT GE

suits suggests that something is wrong with Corporate America's internal ethics system. Simply put, what looks good on paper doesn't always work. Says Ronald E. Berenbeim, a researcher at the Conference Board: "Internal procedures don't seem to generate enough confidence." He's right: Despite in-house systems, employees often aren't sure where to turn and fear that word of their charges will leak out.

Take the case of Walsh. He sued GE in November, 1990, charging that the diversion of money to the Israeli general took place while Walsh was general manager of GE's aircraft-engine group in Israel. Later, the Justice Dept. joined the suit. Why didn't Walsh go to GE brass? "He figured if he put his charges in writing and filed them with GE, he'd have absolutely no protection," says James B. Helmer Jr., Walsh's attorney.

It's by no means certain that

Walsh's worst fears would have come true. He still works for GE, which has fired or disciplined executives purportedly involved in the scheme. But Thomas F. Dooley's story is far from encouraging. Last October, Dooley, a former salesman for the Sikorsky Aircraft Div. of United Technologies Corp., filed a civil racketeering suit alleging that in 1987, in an attempt to land a \$130 million helicopter sale, Sikorsky officials bribed two Saudi Arabian princes.

HORROR STORIES. Dooley claims he was demoted for reporting the bribes to Si-

korsky, and that company officials moved into his home in Saudi Arabia, opened his mail, and misused his personal bank account. UTC hired an outside law firm to investigate the charges, concluded that they were groundless, and passed the findings on to the Justice Dept. On June 17, a federal judge disagreed, ruling that lawyers could proceed with 10 of Dooley's 14 charges.

Such horror stories discourage employees from airing accusations in-house. "Whistle-blowers are often blackballed for not being team players," says Patricia H. Werhane, ethics professor at Loyola University and editor of *Business Ethics Quarterly*. "Companies should be proactive and portray these people as heroes."

Hard to argue with. And it can work in the real world if chief executives emphasize that ethics are more than a fancy policy. They should ask workers whether they have confidence in the

company's ethics system and make them believe that exposing internal wrongs is part of their job. Whistle-blowers who raise real issues should be rewarded. And companies need to come clean if they find wrongdoing.

It's painful to expose improprieties, especially at top levels. But better to feel pain at the office than to face scandal in court.

A MODEL WHISTLE-BLOWER POLICY

SHOUT IT FROM THE ROOFTOPS Aggressively publicize a reporting policy that encourages employees to bring forward valid complaints of wrongdoing

FACE THE FEAR FACTOR Defuse fear by directing complaints to someone outside the whistle-blower's chain of command

GET RIGHT ON IT An independent group, either in or out of the company, should investigate the complaint immediately

GO PUBLIC Show employees that complaints are taken seriously by publicizing the outcome of investigations whenever possible

DATA THE CONFERENCE BOARD



ARCO'S SMOG PRO SHOPS WILL NEED A LOT OF EXPENSIVE NEW EQUIPMENT

HONK IF YOU HATE THE EPA

Car owners moan, but some businesses love new emission-control rules

Already bedeviled by traffic jams, pothole-pitted roads, and rising sticker prices, car owners may be pushed over the brink by the Environmental Protection Agency's tough new rules on auto emissions. The EPA's July 13 proposal will require some 100 million cars to undergo far stricter—and more expensive—testing than current regulations mandate. And owners of cars that can't pass may find themselves stuck with repair bills of as much as \$450.

But there are plenty of Americans who just love the new regs. If the rules survive a gauntlet of likely legal challenges, it will mean a windfall for companies that make testing equipment and perform the actual tests. "It's a bonanza," says Chester Davenport, Chairman of Envirotest Systems Corp., a Bethesda (Md.) company that already runs inspection programs in seven states. Indeed, Davenport thinks the new rules could triple privately held Envirotest's 1991 revenues of \$70 million by 1994. He says he may take the company public at some point to finance the resulting expansion.

Testers aren't the only companies bound to benefit. As many as one-third of the late-model cars currently on the road initially

will fail the new test, the agency says. Today, just 8% to 10% do so. That means lots more cash for repair shops, parts makers, and repair-equipment manufacturers. "Anything driving more business to the repair shop is good for us," says Ronald J. Ortiz, president of North American operations for Sun Electric Corp. in Crystal Lake, Ill. His company runs inspections and makes diagnostic equipment used to repair cars that can't pass pollution tests.

NEW PARTS. Cleaning up smog-spewers will require plenty of new replacement parts, too. Already, sales of emissions equipment are growing 25% annually for Standard Motor Products Inc., a \$550 million-in-sales auto-parts maker in Long

Island City, N. Y. The tough new inspection law will only add to that. "It's what's known as the untapped repair market," says Steven J. Brown, Standard's vice-president for marketing.

The new rules, however, will mean big challenges for some companies. Though the EPA argues that the new inspection program is a cheaper way to cut air pollution than upcoming rules requiring cleaner cars and fuels, the change is going to be expensive. The new regulations require testing under conditions that more closely mimic actual driving. That means placing cars on expensive treadmills and running them at different speeds. The equipment costs a minimum of \$150,000—and as many as 8,000 units may have to be set up to handle the flood of cars around the country.

BIG BILL. That's too expensive, some companies say, and that may force them out of the market. Three years ago, for example, Atlantic Richfield Co. launched Smog Pro, a chain of emissions-testing shops in Southern California. Now, there are 136 franchisees whose shops use a system that costs about \$50,000. Upgrading would stick the franchisees with a bill of at least \$40 million. And unless the EPA approves Smog Pro's current system, a step the agency is now evaluating, "we're really going to have to look at whether we want to be in this business," says Bob Fidler, manager of new marketing programs for Atlantic Richfield's products division.

That won't upset the EPA and environmental groups. They contend that half of all tests conducted at repair shops are done improperly, so they would prefer that more accurate tests be done at inspection-only facilities. Only strenuous lobbying by Atlantic Richfield and service station owners stopped the EPA from limiting the new tests to inspection-only shops—which would have hurt them and helped inspection contractors such as Envirotest and Sun Electric.

The EPA's new rules, which could serve as an international model, may even have given U.S. exports a boost.

Britain adopted mandatory testing last year, Taiwan has a tough program in place, and Germany is expected to follow suit. U.S. companies such as Envirotest and Andros Inc., a maker of test equipment in Berkeley, Calif., are getting a nice chunk of that work. Cleaning up the air, it seems, can be good business for some the world over.

By Peter Hong in Washington, with Thane Peterson in New York and Ronald Grover in Los Angeles

A WINDFALL FOR THE 'SMOG INDUSTRY'

TESTING COMPANIES With mandatory emissions-testing expanding to 55 new areas, companies that run inspection programs stand to increase revenues by \$1 billion annually

TEST-EQUIPMENT MAKERS High-tech dynamometers, the testing gear required under the new law, cost \$150,000 each. Companies that make the meters should rake in some \$1.2 billion in new business

REPAIR FACILITIES Service stations and other repair shops will get some \$600 million in new work to bring cars up to the standard

AUTO-PARTS MAKERS All those cars will also need new parts, amounting to some \$240 million in business for parts manufacturers

DATA: BOOZ, ALLEN & HAMILTON INC., ENVIRONMENTAL PROTECTION AGENCY, COMPANY REPORTS, BW

CATERER TO THE OLYMPICS: A GOLD MEDAL—BUT NOT MUCH GOLD

Diversified food-service giant ARA has been hit hard by the recession

The world's athletes may be far from home while competing at the Barcelona Olympics, but you won't know it from their training table. Indian competitors will have plenty of *rogan josh*, a lamb dish, to fuel them. Russian athletes can nibble on the baked caviar and salmon delicacy, thin noodles *natiuska*. And for the Americans, what else but rib-eye steaks and burgers?

All of it will come from the ARA Group Inc., the Philadelphia-based services outfit responsible for feeding all 15,000 athletes and coaches during the competition. The games mark the eighth time since 1968 that ARA will face the herculean challenge of meeting the varied dietary demands of Olympians from 183 countries. "For us, it's the gold medal of our profession," says Joseph Neubauer, chief executive of ARA. "If you can do the Olympics, you can do anything."

FAR FLUNG. It may be a gold medal of sorts, but it doesn't add much to the privately held company's bottom line. ARA actually loses money on its Olympics contract, though it won't say how much. Neubauer figures the visibility is worth it. After all, the Olympics is merely a sideline for ARA. Most of its energy goes into trying to produce growth in such far-flung services as day-care centers, book distribution, and uniform rentals.

The core of this heavily diversified company remains in contract food, which produces some \$2.8 billion of ARA's \$4.8 billion in annual revenues. ARA recently won the food concessions at Baltimore's new Oriole Park at Camden Yards. For more than 30 years it has supplied cafeteria fare to colleges and now serves some 319 schools. It sets up Pizza Hut and Taco Bell kiosks in the dining halls to try to draw more students. "No more mystery meat," Neubauer vows.

But in its drive for growth, ARA has ranged far from food. Hospitals can rent emergency-room services, doctors

and all, from the company. Its Correctional Medical Systems unit provides medical services to some 80,000 inmates at more than 110 jails and prisons nationwide. And last February, ARA acquired WearGuard Corp., which, with \$120 million in annual sales, is the nation's largest catalog retailer of uniforms. ARA is already the country's top uniform renter.

The company's diversification has some common threads running through it. Neubauer says he will expand only into businesses that focus on providing service. To stay within the ARA fold, units must rank No. 1 or No. 2 in their industry. And all must maintain healthy growth potential.

CEO NEUBAUER: "NO MORE MYSTERY MEAT" IN COLLEGE DINING HALLS



ARA: NOT JUST CAFETERIAS

Company segment	1991 sales	1991 operating income
FOOD AND LEISURE	\$2.8 billion	\$127 million
Catering to hospitals, schools, and corporations; stadium and national park concessions; vending machine services		
HEALTH AND EDUCATION*	\$504 million	\$27 million
Emergency-room staffing; prison health care; day-care centers		
TEXTILE RENTAL AND MAINTENANCE**	\$821 million	\$87 million
Uniform rentals, industrial janitorial services		
DISTRIBUTIVE SERVICES	\$368 million	\$26 million
Book and magazine distribution		

* Pro forma results, reflecting February divestiture of Living Centers of America

** Pro forma results, reflecting February acquisition of WearGuard Corp.

DATA: COMPANY REPORTS

The strategy has mostly paid off for the company, which went private in a 1984 leveraged buyout led by management. Its junk-rated bonds, which carry interest rates of between 10% and 12.5%, are trading between \$107 and \$110, up a couple of points during the past six months. Since 1985, net income has increased tenfold, to \$64 million in fiscal 1991, ended in September. Sales over time are up, too: Last year, ARA revenues were \$4.8 billion, up from \$3.5 billion in 1985. The growth has made for happy ARA managers: Many hold stock now worth \$35 or so a share, up from a meager \$3.50 eight years ago.

Still, the company has been hit hard by the recession. ARA's 1991 sales were up slightly vs. 1990's \$4.6 billion. But 1991 operating income, at \$260 million, wasn't much better than 1990's \$257 million. This year only a big second-half pickup will keep sales from running dead even with last year.

DAY-CARE WOES. Part of the problem comes from a slowdown in ARA's core food business: Corporate clients, busy downsizing their payrolls, have cut down on the amount of food they need from ARA. And Neubauer has had to trim some units: In February, he sold 90% of ARA's capital-hungry nursing home business, Living Centers of America, in a public offering that raised some \$113 million.

But the biggest drag on ARA's earnings may come from its 12-year-old venture into day care. The company's Children's World Learning Centers Inc., with some 500 outlets after a series of acquisitions, is modestly profitable, executives admit. ARA is expanding into on-site day care. It has won business from the Pentagon, the National Security Agency, and 20 public schools, which provide day care before and after classes. But with few companies and school systems adding such costly operations, the effort is going slowly.

With worries like that, no wonder Neubauer eagerly awaits Barcelona. It's a potent morale-booster for ARA's 120,000 employees. Such challenges as ensuring that the Chinese get rice boiled and the Japanese get it steamed amid the Olympic hoopla are more fun than squeezing a little bit of growth out of an oh-so-sluggish economy.

By Joseph Weber in Philadelphia



**IN WHICH COUNTRY WOULD
YOU PLACE THIS POINT?**

EDITED BY HARRIS COLLINGWOOD

GOING OUT OF BUSINESS

President Bush doesn't need the kind of economic news that Dun & Bradstreet released recently. The credit reporting company says that business failures in the first five months of 1992 are up 15.9% over the same period last year. The biggest losers, by industry:

Industry	Increase in failures over 1991
AGRICULTURE/FORESTRY/FISHING	36.2%
SERVICES	23.4%
WHOLESALE	21.3%
FINANCE/INSURANCE/REAL ESTATE	18.0%
MANUFACTURING	16.2%
RETAIL	15.7%

DATA: DUN & BRADSTREET CORP.

FOR COKE, NEW FIZZ AND SOME FIZZLES

► Coca-Cola Co. is discovering that being global means balancing good markets with bad. Profits at Coke jumped to \$581 million in the second quarter, up 20%, on a 16.8% sales increase, to \$3.5 billion. Despite the impressive profits, overseas unit sales increased only 4% compared with a 7% first-quarter rise.

Coke, which relies on international sales for 80% of its operating profits, enjoyed a 14% increase in unit case sales in Europe. But in Japan, case sales dropped 6%.

In the U.S., case sales dropped 1%, offsetting a gain of 1% in the comparable period last year. Coke bottlers, who are weary of an intense price war with Pepsi, finally decided to hike prices in certain areas, risking a loss of market share.

HAND ON DECK AT HARTMARX

► In a move that Seventh Avenue has been expecting for some time, Hartmarx Chair-

man and CEO Harvey Weinberg resigned from the beleaguered clothing manufacturer and retailer. His replacement will be current President Elbert Hand.

Renowned for making men's suits under the Hart Schaffner & Marx label, Hartmarx also operates several store chains and Sears's Kuppenheimer men's shops. But the retail operations have been floundering, and Hartmarx hadn't turned a profit since Weinberg took over in 1990. Hand will continue to close stores and concentrate on manufacturing.

FLORIDA CRACKS DOWN ON SOUTHERN BELL

► The Florida attorney general is taking on Southern Bell. On July 13, Attorney General Robert Butterworth alleged that Southern Bell employees used "boiler room" techniques to sign up thousands of customers for services they never ordered. Butterworth said the state would join a 1989 class action against Southern Bell, in addition to filing its own suit. The attorney general acted just days after calling off 15 months' worth of negotiations with Southern Bell. In those talks, the company had tentatively agreed to pay a settlement of as much as \$14.6 million.

The company says it's "outraged" by the state's charges.

'BOSS? I'M AFRAID I'VE GOT A TOUCH OF ANGST'

Uh-oh, it's going to be one of those days. While you're still under the covers, you realize you've gotten up on the wrong side of the bed. And now you're going to the office to share your special brand of gloom and irritation with your colleagues.

Not so fast, bud. Gary Haiser would like you to take the day off, for everyone's sake. Haiser, who runs Personal Wealth Systems, a small direct-sales company in Jacksonville, Fla., thinks bad moods are at least as contagious as the flu. He lets his staff of 10 full-timers and one part-timer take a "blue day" when they need to sort out their troubles. But couldn't an employee abuse the privilege? "If you've got someone like that," he says, "you've got a bad employee." He also has another unique way of cutting office stress: his cocker spaniel, Winnie, a goodwill-ambassador-cum-security-system who roams the halls freely. No word if she can take blue days, too.



It blames the actions on just a few employees, who have since been dismissed or disciplined. The company adds it has offered refunds to 30,000 affected customers.

AMERICAN AIRLINES' COSTLY GLITCH

► With fare wars already pushing it into the red, the last thing American Airlines needed was to be blindsided by a computer foul-up. But on July 15, parent AMR announced a \$109 million after-tax charge against second-quarter earnings to cover the suspension of an ambitious

airline, hotel, and car-reservation system called Confirm.

The system was supposed to come on-line on June 30, but AMR recently announced that software glitches would delay it for 18 more months. That led partners Hilton, Marriott, and Budget Rent-A-Car to quit the project. The charge for Confirm accounted for the bulk of AMR's \$166 million quarterly loss. AMR Chairman Robert Crandall called the quarter "an enormous disappointment."

A B-SCHOOL BOUND TO SENSITIZE MANAGERS

► Boston College is putting social issues on its MBA curriculum. In August, incoming graduate students at BC's Carroll School of Management will spend two days focusing on such issues as poverty, race, and the environment.

Second-year MBA students also will be required to spend two hours a week with an inner-city student "tutoring, advising, and relationship-building." Says Carroll School Dean Louis Corsini: "B-schools have to produce sensitized managers capable of helping the nation's schools, neighborhoods, and cities."





IN CATALONIA, OF COURSE.

This is where Barcelona is, in Catalonia, a country in Spain with its own culture, language and identity.

A country with a population of only six million people, which has experienced a growth which has made it one of the motors of Europe.

A country in which many foreign enterprises – European, North American, Japanese – have invested and are still heavily investing.

A country which has understood and motivated the genius of Picasso, the force of Miró, the imagination of Dalí, the innovative approach of Tàpies, the art of Montserrat Caballé and Josep Carreras, the mastery of Pau Casals, the daring of Gaudí...

A country which is visited every year by 16 million people from all over the world for its climate and its unique tourist, sports and cultural facilities.

A country with the know-how to get the

Olympic Games for its capital, Barcelona.

Now you know where Barcelona is. In Catalonia, of course.



GENERALITAT DE CATALUNYA
AUTONOMOUS GOVERNMENT
OF CATALONIA

'DR. SUBTLE' IS READY FOR EMERGENCY SURGERY

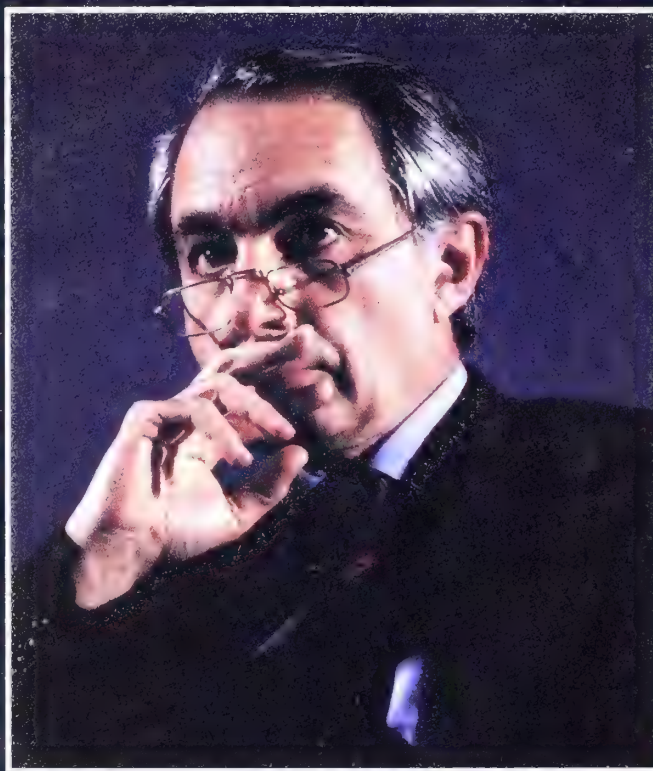
Italy's new Prime Minister Amato is cutting as fast as he can

In Italy, they call him "Dr. Subtle." Giuliano Amato is noted for his cool and clever demeanor and attention to details. Now more than ever, the Columbia University-trained lawyer needs such attributes. In mid-June, he became Italy's Prime Minister, inheriting one of the country's worst financial crises in recent history. Italy is a mess: Its central bank has been spending \$100 million a day to halt a speculative run on the lira, while Milan's stock exchange—once Europe's frothiest—is in the throes of a Tokyo-style collapse, dropping 15% since early June.

In just a few days on the job, Amato has already performed some tricky surgery on Western Europe's sickest economy. He pushed through a \$26 billion emergency budget package on July 10, designed to get Italy's crippled state finances through to the end of the year. Meanwhile, his Cabinet is proposing radical overhauls of Italy's gold-plated civil service, pension, and health care systems. Says the 54-year-old Amato: "We were on a cliff edge, and we had to act."

IMMEDIATE RESULTS. Now, the new Prime Minister is poised to take Italy through the most profound structural changes since Benito Mussolini put the state in charge of much of Italian banking and industry during the Great Depression. In fact, on July 11, Amato signed sweeping decrees restructuring huge government companies, setting them up for sell-offs by yearend. Included are such industrial behemoths as IRI, the industrial and financial holding company, and the giant energy group ENI.

Previous Italian governments have promised large privatization programs, with nothing to show. But this time, says Stefano Micossi, chief economist of Confindustria, the Italian employers' federation, "they've already done in one



AMATO WILL
SET UP TWO
'SUPER
HOLDING
COMPANIES'
TO SELL OFF
STATE BANKS
AND
COMPANIES

day what other governments never could do."

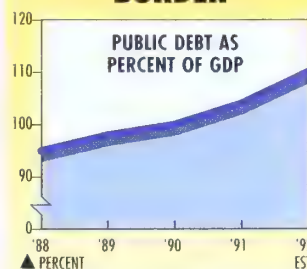
Amato has been able to act quickly because the traditional political parties that have governed Italy since 1946 have never been so weak. Trowned by voters in general elections last April, they are being battered by corruption probes of unprecedented scale. Scores of politicians have been arrested or placed under investigation, including former Foreign Minister Gianni De Michelis.

Amato plans a drastic reduction in political influence at IRI, ENI, and other state companies. Hazy lines of government control have long allowed state industry

to become vast spoils machines for political parties, who systematically placed cronies in top management. Amato has now placed the companies under direct control of the Treasury, considered the cleanest and most technically competent branch of the government. And, for the first time in half a century, ENI and IRI will be subject to corporate legal rules making them more accountable to shareholders and the public.

There's more to come. By the end of July, Amato promises to restructure all state groups into two "super holding companies"—a move he hopes will help simplify the government sell-off. To help

ITALY'S GROWING BURDEN





GLAVUNION GLASS FACTORY: A JOINT VENTURE, ITS SALES MAY LEAP 23% THIS YEAR

A COUNTRY DIVIDED THAT CAN STAND

The Czech Republic, shorn of Slovakia, could privatize that much faster

While the politicians are preparing to split Czechoslovakia in two, a Digital VAX computer in a dilapidated building near the Vltava River in Prague is quietly crunching millions of bids for shares in 1,478 state-owned companies. Ignoring the political rumblings, the country's massive privatization program is forging ahead. The first wave will put one-third of state industry in private hands by this fall. A second wave of 1,200 companies is being prepared for early 1993.

These massive sell-offs are the heart of Czech Prime Minister Václav Klaus's plans for a bold, almost instant remake of the economy. The loss of Slovakia could actually prove a plus for the ground-breaking privatization scheme. Slovakia contains most of the country's basket-case armaments industry, and its leaders are loath to privatize quickly.

While political opposition and lack of capital have slowed privatization in Eastern Europe and the former Soviet Union, Klaus has a better shot at succeeding because he has won wide support for the plan. The key to his program, which could become a model for other countries, is a coupon scheme that will give up to 80% of the adult population a stake in former state enterprises. Vouchers

that can be exchanged for shares in companies were sold at a bargain \$37. Public interest mushroomed when newly created mutual funds promised to buy back these stakes for as much as 10 times the initial price.

To speed the creation of a private sector, the newly elected Czech government is accelerating the bold supply-side strategy that Klaus embarked on 18 months ago. Plans include cutting personal income taxes from a top rate of 97% to 47%, letting capital gains go untaxed, and stimulating small business. "The Czech republic is firmly in the hands of reformers," says Industry Minister Vladimír Dlouhý.

Despite the breakup threat and a lingering recession, the Czech economy appears to be poised for growth in 1993. Already, there are signs of vigor among sectors such as banking, machinery, construction, glass, and textiles. Komerční Banka, the country's largest with \$9.3 billion in assets, has nearly doubled its work force, to 14,000, in the last year. "We are lending now ten times as much to small entrepreneurs as we were a year ago," says CEO Richard Salzmann.

A handful of companies sold to Western investors are leading the charge. After a dip in production in 1991, Volks-

A voucher system is letting citizens buy stakes in former state industries at discount

retire debt, ENI and IRI managements will be given freedom to sell their own subsidiaries, such as oil and gas producer Agip or engineering giant Finmeccanica. By yearend, Amato wants to raise \$3.5 billion through the sale of convertible bonds in government companies.

The measures come none too soon. With less than six months to go before the single market comes into effect, Italy is Europe's biggest headache. Rome alone carries over one-third of all European public debt, while Italy's numbing \$160 billion budget deficit this year has forced the Bundesbank and Bank of France into costly lira rescue operations. Such a situation prompted European Finance Ministers last May to urge Rome to get its economy in order.

Few groups want economic change more than business. Italian growth was white-hot throughout the 1980s. But in January, 1990, Italian exporters were made much less competitive when Rome ignored high inflation and decided to anchor the lira to the stronger currencies of Northern Europe. High labor costs and an overvalued lira caused profits to slump at such blue-chip companies as Fiat, Pirelli, and Olivetti. At the same time, lean foreign companies raced in to grab Italian market share. "Our margins last year were one-third of what they were in 1988," explains Olivetti Chairman Carlo De Benedetti.

INDUSTRIAL EXODUS. To survive, many companies eked out productivity gains through slimming down work forces and, in an increasing number of cases, moving production out of Italy. Benetton, the clothing giant with \$2 billion in sales last year, has shifted some key production lines to low-labor-cost countries such as Turkey, Egypt, and India.

Rome's gamble is that swift action to reduce government spending can ease pressure on the lira and bring down punishing real interest rates of 10%. One easy way out would be a lira devaluation of perhaps 15% to 20%. Many top bankers and industrialists now see that as unavoidable later in the year, although opposition in Europe would be fierce. Amato would rather avoid a devaluation, aides say.

The real question, then, is whether Italy can endure the terrific pain associated with cleaning up its act and joining Europe. The Bank of Italy, for example, estimates that meeting the economic criteria laid down by the Maastricht summit last December would require an austerity program that could throw an additional 600,000 people on the dole. But, says Andea Bollino, chief economist at ENI, "if we do nothing, then we'll have a collapse and 3 million unemployed." That's why many in Italy pray that Dr. Subtle's surgery works.

By John Rossant in Rome

wagen's joint venture with auto maker Skoda is operating at full capacity. It has muscled into new markets such as Germany with its \$4,000 compacts. Skoda-VW aims to double production to 400,000 cars a year by 1996 and has begun designing a more sporty, upscale model. Glavunion, a joint venture between Belgian glassmaker Glaverbel and SKLO-Union, expects sales to jump 23% this year, to \$160 million. With more aggressive managers in control, exports already have climbed from 40% to 65% of sales, with Germany the No. 1 market. "We always had high-quality products. What we lacked was good marketing," says managing director Stepan Popovic. Small private businesses have multi-

plied rapidly, boosting the private sector from zero to 10% of gross national product in 18 months. Entrepreneur Ales Ordnung, 26, launched a wholesale clothing business last year that currently has sales of \$2.2 million. He is planning a retail clothing chain modeled after The Gap and a restaurant-cafe-disco in Prague.

MORE COMING. The signs of a turnaround don't mean the transition will be painless. Policymakers expect a wave of bankruptcies and unemployment next year as private shareholders start to restructure, sell, or liquidate their companies. As a result, the Klaus government expects unemployment to double, to 10% or higher. And interest rates will remain

high to keep inflation in check. Serious dislocation could create a backlash led by a vocal core of socialists. But no one is betting on a political about-face. In fact, a turnabout is more likely to occur in Slovakia, whose economy will probably go into a nosedive, ushering in a new group of pro-union politicians.

Meanwhile, an independent Czech republic looks to be a model for eastern Europe. Already, Prague boasts a booming retail and service sector. Consultants say as much as \$3 billion to \$4 billion more in foreign capital is waiting to be invested over the next two years. That could be just the glue Klaus needs to make his reforms stick.

By Gail E. Schares in Prague

BRAZIL

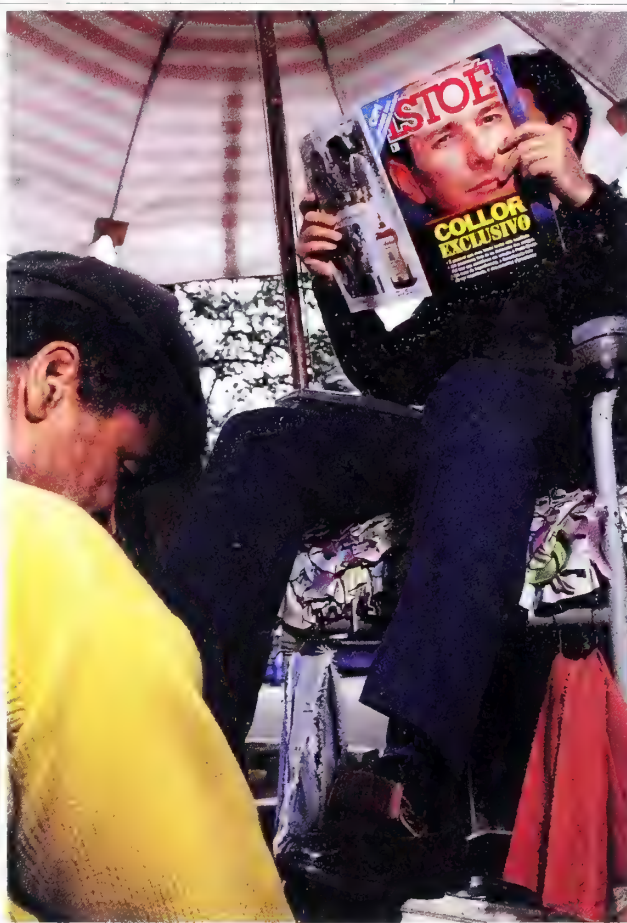
A BOOST FOR BRAZIL—IF NOT FOR COLLOR

Its free-market reforms get a big vote of confidence

Brazil's roller-coaster stock markets, driven down in late May and June by corruption charges swirling around President Fernando Collor de Mello, are on the upswing again. They turned in early July, when investors got welcome news. First, in an impressive display, 1,500 top executives attended a dinner to honor Marcilio Marques Moreira, Collor's Economy Minister, and to show support for his reform policies. One day later, Brazil got an even bigger vote of confidence—its creditors agreed to restructure the country's \$44 billion of foreign bank debt. That combination sent the São Paulo market soaring 25% in three trading days.

Inside and outside Brazil, investors are becoming convinced that the country's free-market economic reforms will continue, regardless of the outcome of a congressional probe of transactions by Collor's former campaign financier. "The markets are recovering because Brazil has finally managed to separate economics from politics," says Julius Buchenrode, investment director for Chase Manhattan Bank's two Brazilian funds for institutional investors.

'SOME RECOVERY.' Politically, Collor isn't home free yet. He could still face impeachment if congressional probers find hard evidence linking him to alleged illegal activities by businessman Paulo Cesar Farias, his 1989 election fund-raiser. But with or without Collor, Brazil's free-market shift may now have acquired a life of its own. "Collor has managed to



READ ALL ABOUT IT: SCANDALS THREATEN TO TAKE COLLOR DOWN

form a consensus that Brazil must stop protecting industry, must open up its economy to foreign competition, and must spend less," says Banco da Bahia market analyst Dalmo Vasconcellos. "Even Congress has begun to go along with the new thinking."

A case in point is a bill that Collor pushed for more than a year to overhaul corrupt and bureaucracy-ridden ports. In late June, the lower house of Congress passed it, although in somewhat watered-down form. Now, industry groups that organized the show of support for Marques Moreira intend to lobby Con-

gress to act on other key measures, especially a fiscal reform to end budget deficits that feed inflation.

While stock market players lost most of their gains from the markets' 80% rise through mid-May, many long-term investors have remained bullish. They see the country's relative calm—outside the equity markets—as evidence of maturity. "If this kind of political event had erupted in the past, the economy would have shut down," says Robert Harper, external affairs director for Texaco Brasil, which is carrying out a \$67 million expansion. Siemens also is stepping up investments in Brazil this year—by more than one-third, to \$35 million. Its orders for electronic components jumped 80% from May to June, reflecting increased sales of stere-

os and TV sets. "The situation is difficult, but not as black as some people are painting it," says Hermann Weber, president of Siemens' Brazilian subsidiary. "We are starting to see some recovery."

In Argentina, President Carlos Menem was nearly brought down by charges that he accepted illegal gifts and that relatives were linked to drug-money laundering. But when his economic reforms started producing results, the scandals were forgotten. Collor's economic team is hoping history will repeat in Brazil.

By Geri Smith in Rio de Janeiro

SALINAS' GRIP ON MEXICO IS SO STRONG, HE EVEN WINS WHEN HE LOSES

Early in his presidency, Carlos Salinas de Gortari held a weak hand. The left wing of his ruling party had broken off, creating an opposition coalition that threatened to block economic reforms, including free trade with the U.S. But the Mexican President knew that if he directed his Institutional Revolutionary Party (PRI) to crack down too hard on the left, stealing elections, that would give ammunition to U.S. congressional opponents of free trade.

Salinas could have allowed the left to gain some electoral power to satisfy his U.S. critics. But he chose a more clever solution. Co-opting enemies and forging alliances, he has rebuilt the PRI that was tottering when he took power in 1988. The effect has been to strengthen his party's monopoly on power. Now, elections in Mexico are increasingly irrelevant. The only opposition candidates who win are de facto allies of Salinas, including the victor on July 12 in the Chihuahua state elections, Francisco Barrio of the conservative National Action Party (PAN).

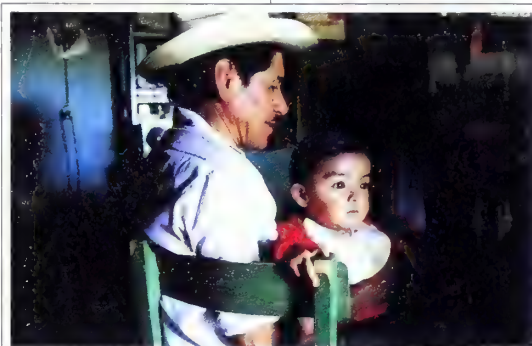
The bolstering of Mexico's one-party system is convenient for George Bush. With only token opposition in the Mexican Congress, courts, and media, Salinas can steer his country toward free trade with nary a bump. But the rule of an all-powerful President also brings risks. Salinas' successor in 1994 may not get along as well with his U.S. counterpart. Or he may be less skilled than Salinas at holding together the one-party system, forcing him to resort to force.

BROAD SUPPORT. For now, Salinas has few worries. His appeal to the right is no surprise. He has won it over with his economic reforms and by embracing two longtime villains of Mexico's nationalist, anticlerical state: the Roman Catholic Church and the U.S. "He has appropriated our platform," says Luis Felipe Bravo Mena, a PAN leader.

But Salinas has also been shockingly successful at winning over leftists. Nearly every week, Salinas flies by helicopter to remote *pueblos*, where he gives speeches lifted almost verbatim from the leftists. He talks about empowering the poor. But unlike his cash-strapped leftist opponents, Salinas backs up his rhetoric with money. Through his massive Solidarity program, which he funds by selling off state companies, the President channels money to build schools, roads, and sewers throughout Mexico. Meanwhile, he blankets the country with slick Solidarity ads.

Salinas brings leftists into his government to run these programs. Gustavo Gordillo, for example, who organized peasants against the government in the

1970s, is now a key agriculture official. Other former firebrands hold the top posts in state television and the government peasant union, and they dominate Solidarity. By recruiting leftists, Salinas plugs into their power base in the countryside. At the same time, he divides the coalition that rocked the PRI in 1988. "Most of Mexico's Maoists now work in Solidarity," observes Marco Rascón, head of the opposition Democratic Revolutionary Party in Mexico City.



SALINAS' RURAL PROGRAMS CO-OPT LEFTISTS

For former communists and guerrillas, Solidarity provides vast funding for community organizing, but at a price: They must toe Salinas' free-market line. Investors, meanwhile, applaud the rural programs. Solidarity stabilizes the countryside, and its roads and bridges open up Mexico's hinterland for agro-investment.

So Salinas has politics well under control at home. Indeed, the only election he needs to fear will take place north of the border. With Bush looking weak and the Democrats and Ross Perot skeptical about free trade, Salinas had better build some more bridges for insurance north.

By Stephen Baker and Mary Farquharson in Mexico City

GLOBAL WRAPUP

RUSSIA

New currencies to replace the hapless ruble are springing up in such parts of the former Soviet Union as Latvia and Estonia. But now, a new currency could arise inside Russia itself. If all goes well, the money will be issued by a Liechtenstein-based currency board later this year. It will be used mostly in the rich oil fields of Western Siberia, according to Steve Hanke, an economist at Johns Hopkins University who has been informally advising local authorities on the project. The fully convertible Urals franc will be traded only for dollars.

But Boris Yeltsin's government says

it is opposed to the idea. "A currency board is completely unfeasible in this country," according to Pyotr Aven, Russia's Foreign Economic Relations Minister.

GERMANY

Although beset by budget problems, the German government approved plans on July 15 to invest \$340 billion in transportation infrastructure over the next 18 years. An initial \$150 billion "urgent" package to build 2,000 miles of high-speed rail track, 1,500 miles of new Autobahns, and bypasses around towns and villages is expected to launch a nationwide civil engineering and construction bonanza.

BRITAIN

John Smith, who succeeds Neil Kinnock as Labor Party leader on July 18, could determine the fate of the Maastricht treaty on European unification. Parliament is expected to vote on the treaty in the fall. If Labor joins forces with anti-Maastricht Conservatives, the treaty could be defeated. Smith has been known for taking pro-Europe stances, but Labor politicians, who see a chance to strike a blow at Prime Minister John Major's government, are pressuring him to switch. A defeat in a key country such as Britain could force Maastricht back to the drawing boards.

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A TEXTILE WORKER AT OREKHOVO-ZUEVO: WAGES ARE THREE TIMES THE LEVEL OF INDUSTRIAL JOBS IN RUSSIA

IN RUSSIA, A JOURNEY BACK TO THE FUTURE

Senior Writer Karen Pennar examines the privatization of a factory built by her forebears

It's a sunny Saturday morning in June, and the road to Nizhni Novgorod is crowded with Muscovites eager for a spin in the country. We pass several sooty manufacturing plants in Moscow, then skirt the southern edge of Izmailovski Park. Soon the fumes and dull cement-block apartment buildings give way to clear air and tiny roadside dachas, dots of green and red and blue topped by sagging roofs and Russian gingerbread. Kerchiefed women sell just-picked herbs along the roadside.

I am traveling with my colleague Rose Brady, BUSINESS WEEK's Moscow bureau chief, to the city of Orekhovo-Zuevo, population 150,000, about 60 miles east of Moscow. In two hours, we arrive in the city and follow the main road to our destination: A series of solid, red brick buildings lining the Kliazma River, many dating from the 1890s. We pull into the courtyard at No. 76 Lenin St.

We are on the grounds of what is

today the Orekhovo-Zuevo Textile Factories Assn., a state-owned industrial combine of 16 textile factories. At the turn of the century, these buildings housed the cotton mills of Savva Morozov & Sons Manufacturing Co. and Vikul Morozov & Sons Manufacturing Co. My great-grandfather, Ivan Vikulovich Morozov, was the last director of Vikul Morozov & Sons. He, my great-uncles, and their cousins presided over a textile-weaving empire here and in two other locations that at its zenith in 1914 employed more than 50,000 workers and had annual sales of 100 million rubles, equivalent to \$650 million today. Among the more notable Morozovs were a despotic strike-breaker, a collector of Impressionist art, and a donor to the Bolshevik cause. All the Morozov assets were seized in 1918, by order of Lenin.

Now it is 74 years later, and we arrive in Orekhovo-Zuevo not knowing what we will find. We have been conducting inter-

views about the planned privatization of industry, the centerpiece of the economic program through which Russian reformers hope to construct a market economy. Despite criticism of the government, the conviction has taken hold that privatization will proceed.

SELLING OFF. On July 1, President Boris Yeltsin decreed that the process begin (page 52). By Nov. 1, all state enterprises—except a group of strategically important ones, such as producers of nuclear weapons and space systems—must be turned into joint-stock companies. Then, the state sell-off will begin. The goal is to transfer state ownership of approximately 130,000 enterprises and thousands of small shops into private hands. Already, in Moscow, St. Petersburg, and Nizhni Novgorod, the three biggest cities, a few businesses have been sold.

"The main goal," says Anatoly B. Chubais, chairman of the state commit-

tee for property management, also known as GKI, "is to have owners in Russia." Only that way, says Chubais, will Russia achieve a new social structure, complete with a middle class that provides social stability and has a stake in the future. And only then will economic reform be irreversible. That's politically crucial for Yeltsin's government, which wants progress before winter sets in. The longer it takes for a new class of owners to grow, the greater the chance that communist and nationalist opponents will make political capital out of economic hardship.

Russian reformers are embracing a principle that Westerners have long held axiomatic: Ownership forms the bedrock of legal, institutional, and social relations in most economies, especially in the developed world. There, not everyone is an owner, but everyone has the opportunity to become one. Only if people are owners or have that prospect, economists believe, do they care enough to preserve and maintain property, to invest time, effort, and money for future reward. On a small scale, home ownership offers that chance. More broadly, private ownership of the means of production provides that opportunity for society at large so that enlightened self-interest ultimately benefits everyone.

The Russian government targeted small shops and enterprises for privatization first, and light industries, such as textiles, next. In Russia, industries such as textiles and food processing are more competitive than the monopolies that exist in heavy industry, and so may be better able to find markets, control costs, and make profits as economic reform proceeds.

In January, the first economic shock came with the lifting of price controls, and prices rose 4 to 20 times on everything from vodka to meat to oil. Wages rose, too, but the squeeze on incomes and production has been dramatic, and enterprises have built up huge debts to one another of more than 2 trillion rubles to keep going. Many are nevertheless strapped for cash.

As we climb the well-worn, century-old iron treads of the staircase to our appointment in Orekhovo-Zuevo, I'm

gripped by a combination of curiosity and apprehension. Anything is possible. The enterprise might be tottering, suffering from crumbling sales. Cheap clothing from Asia is already being hawked on the streets of Moscow, and many mills are having trouble paying hard cash for cotton from Central Asia. The managers might be digging in, unwilling to privatize or modernize. Their welcome might prove chilly.

Or it might not. Sergei V. Babanov, the 43-year-old general director of the enterprise, greets us warmly. He is smooth and charming in manner, interested in the family connection, and ready to talk about how the textile combine is faring. According to Babanov, the enterprise is surviving better than most, and he and his managers are eager to become controlling owners.

The Orekhovo-Zuevo Textile Factories Assn. is today one of the largest textile operations in Russia, with an annual capacity of 200 million meters of cloth and expected sales of nine billion rubles, or

and technicians on a merit-pay scheme, and adopted a new variable pay scale for workers, linked to actual output. The work force declined through attrition and layoffs.

GOOD AS OLD. Output and profits grew, allowing managers to plow \$30 million into new machinery this year. Today, Babanov boasts, the technology is as good as it was when the Morozovs ran the factories—an astounding reflection in itself on what decades of central planning did to Russian industry. Indeed, a few of the state-of-the-art English looms that clattered in these mills a century ago were still used until a decade ago.

In January, the textile combine raised prices 15 to 20 times. Today, a meter of basic cotton cloth costs 60 rubles (about 46¢) on the domestic market, while it's priced at 75¢ a meter for export. Wages have been raised repeatedly over the past year, to the current average of 6,500 rubles a month, or about \$50. That's about three times the level for most industrial jobs in Russia. Moreover, the wages have actually been paid, because the combine avoided the cash crunch that gripped many other enterprises. Fabric is sold for cash to stores, trading houses, and private middlemen—some of whom produce carloads of cash for cloth.

Rising prices, climbing interest rates, and evaporating sales are forcing managers elsewhere to be as flexible as those at Orekhovo-Zuevo. Over the past year, for instance, directors at Krasny Proletary, a Moscow machine-tool manufacturer, have scrambled to change their product mix, boosting the output of wood processing machines that crank out panels for do-it-yourself dacha builders and cutting back on production of expensive and sophisticated lathes. The enterprise still had to lay off about 500 people over the last year, pushing the payroll down

to 4,800, and an additional 20% may be let go next year after the enterprise privatizes, says Director Yuri Kirillov.

Privatization and industrial restructuring are sure to bring massive unemployment—estimates range from 5 million to 11 million unemployed by yearend, out of a work force of 86 million. The Russian government plans to channel state funds to the hardest-hit industries and regions, such as workers in military factories in the Ural Mountains, where unemployment could reach 25%. And it hopes to create a new agency for "reconstruction and development," which will



**IVAN MOROZOV, LAST
DIRECTOR OF VIKUL
MOROZOV & SONS**



ON LENIN STREET, AN ENTERPRISE EAGER TO GO PRIVATE

\$70 million, this year. The factories produce everything from cotton thread to artificial fur to finished clothing, and about 10% of the goods are exported, mostly to Europe. Babanov says sales were up 14% in volume terms last year, quite a feat at a time when many enterprises were losing sales.

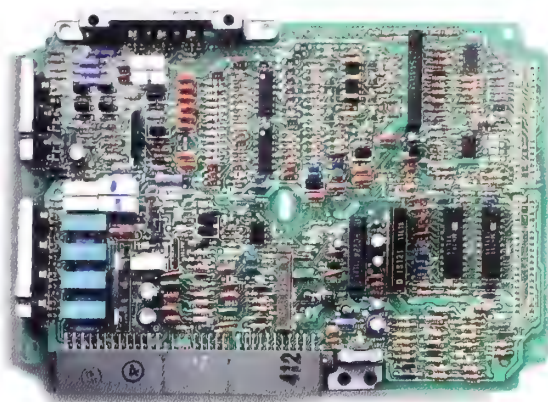
About 15,000 people work at the factories—4,000 fewer than four years ago, after Babanov arrived from another textile operation and began shaking things up. He decentralized, allowing managers to operate each of the 16 factories independently. He put about 300 engineers

A Car Of Such Diplomacy Even And Transmission Have An Ong



Allow us to interpret.
 In the split second before
 every shift, the automatic
 transmission, via the Electronic Control
 Unit (pictured here in the top right cor-
 ner), sends a signal to the engine telling

with impeccable manners
 to minimize any lurching
 or slips. All you feel is
 the silken transition from
 sitting at a standstill to
 cruising comfortably at
 freeway speeds. And vice versa.



The Engine Talking Dialogue.

to delay ignition timing. This momen-
 tarily reduces engine torque, enabling
 the transmission to
 shift smoothly through
 each of the four gears.

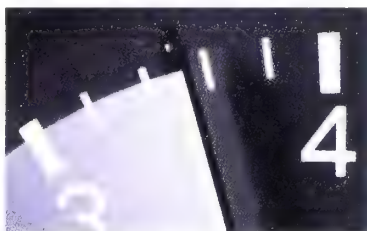


Even the hydraulic pressure within the
 transmission is also electronically
 monitored and controlled for more
 accurate clutch performance.

In layman's terms, this sim-
 ply means that every
 shift is executed

For life in the fast lane (pardon
 the cliché), just switch the trans-
 mission to power mode. The
 all-aluminum, 32-valve V8 is

then allowed to wind out the revs,
 taking full advantage of the LS400's



wide powerband. Perfect for passing
 semi-trucks, city buses and, lest we
 forget, those little red sports cars.

At this point you might want to
 ask, while all this emphasis

with engines is fine for improving
 performance, what about efficiency?
 We're glad you asked. Because with
 4.0 liters and all, the LS400 still
 enjoys respectable gas mileage.*

So now that we've brought you
 completely up to speed on all the
 benefits of a car that talks with itself,
 you're probably more prepared than
 ever to talk with your Lexus dealer.
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In the meantime, it is the directors of enterprises who must confront the new economic forces. Today, those managers may be old party hacks or young mavericks, representatives of the *nomenklatura* or shock troops of a new economy. The ones who are surviving in the crisis environment, whatever their background, are doing so by their wits. For this reason, some believe that sizable ownership should be their just reward. "Today, the managers in industry that we have are the wealth of the country. . . . If a director buys the majority of

the shares and he is a good manager, it is good for the enterprise," says Georgi Khizha, Russian deputy minister for industry and a former manager.

BUYOUT PLAN. Babanov, for one, believes dynamic leadership should be well compensated. Over lunch, he and two of his managers describe their plan: A 25% share of nonvoting stock would go to the workers and 5% of the voting shares would be sold at book value to the managers. So far, the plan looks like one of the options proposed by GKI. But there's more: Over the course of three or four years, managers would purchase 37% of

the voting shares, and the remainder would be sold openly.

It's a bold and nervy plan that heavily favors managers. Our Saturday visit prevented us from quizzing workers, but Babanov says that in the weeks following our visit, he put his plan before the workers, and two-thirds had already approved it by July 15. The managers at Orekhovo-Zuevo are determined to proceed, and believe a clause in Yeltsin's recent decree permits such a plan. "The guys who have the initiative, the guys who really want to do it, for sure will be private one way or another within

HOW RUSSIA IS SLICING UP THE STATE PIE

In Russia today, prices are rising 15% a month, the budget deficit has climbed to 17% of output, and the central bank is printing rubles at a fast clip. These seem to be rather flimsy elements on which to base a market economy. So the government in Moscow is pinning its hopes on privatization, the transfer of state enterprises to private ownership. The International Monetary Fund may be worried about Russia's fiscal and monetary policies. However, "privatization is a lot more important than macroeconomic stabilization," says Harvard University economist Andrei Shleifer, an adviser to the Russian government's state committee for property management, also known as GKI. "It's the only way you manage to build some foundations for a market economy."

With a decree signed on July 1, President Boris Yeltsin launched privatization in earnest. State enterprises must establish joint worker-management teams to propose to GKI by Oct. 1 how the enterprises will be privatized. And by Nov. 1, state enterprises must convert to joint-stock form. Then, their actual sale can begin.

The Russian government's intent is to sell control of companies in "an open, transparent, and competitive manner," as GKI officials put it. For an economy that has long conducted business in a closed, opaque, and anticompetitive fashion, that's a tall order. How to divide the spoils of the state when there are so many interested parties? Managers, workers, and local officials might deem themselves rightful owners of industry, while teachers and doctors might figure they have a stake, too. So the program tries to satisfy all "stakeholders" by giving everyone a chance to gain a piece of the pie. One key component is the distribution

of vouchers to all Russian citizens in order to enable them to become property owners.

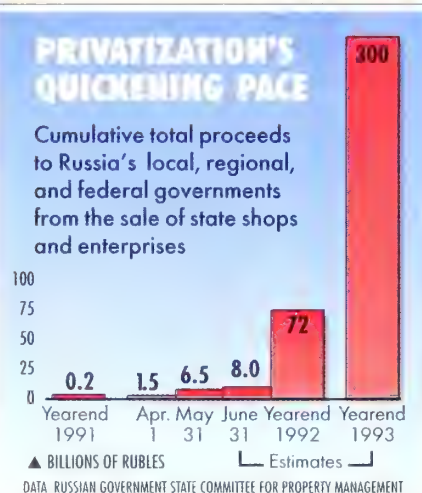
There are three basic methods for privatization, all of which, initially at least, leave the state with a major stake in industry. First is a plan that would give—free of charge—25% of the shares (nonvoting) to workers, sell managers 5% of voting shares at book value, and permit the purchase of an additional 10% at discount by workers

tion process, but GKI has not yet devised guidelines for this procedure. In addition, the government wants to establish trust companies to take stakes in the auto, coal, and oil industries to prevent mass bankruptcies and unemployment.

VOUCHER SYSTEM. Presented as a critical counterbalance to these plans is the voucher program, which will enable all citizens to purchase some of the remaining shares held by the government. "Vouchers will produce additional pressure on local authorities," says Anatoly B. Chubais, chairman of GKI, because citizens who want to use them at auctions will urge officials to conduct sales of enterprises. Foreign bidders are expected to be buyers at auctions as well.

Privatization has begun on a small scale in Russia, with an estimated 8 billion rubles' worth of sales to date, or \$61 million at the current exchange rate of 130 rubles to the dollar. Proceeds are to be divided between the federal government and regional and local governments, giving local officials an inducement not to block sales. GKI officials aim to sell off one-third of state enterprises by 1993, one-half by yearend 1994, and as much as two-thirds by yearend 1995. That is highly optimistic, especially considering the Marxist injunction against private property that has prevailed in Russia for nearly 75 years. But, observes Maxim Boycko, economist at Moscow's Institute of World Economy & International Relations and an adviser to GKI: "Today, nobody is discussing whether to privatize or not, which is already a big achievement from half a year ago." Out of such small steps is a new economy gradually being built.

By Karen Pennar and Rose Brady in Moscow



and managers. Then there's the possibility of workers and managers buying a controlling 51% of an enterprise. Thirdly, there's a special option for small enterprises, under which managers and workers could acquire up to a total of 40% within a year, provided they meet commitments to shore up the enterprise.

Yeltsin's July 1 decree opens the door for a fourth variant, by which managers could form trust companies to take enterprises private. Such trust companies could result in far more managerial domination of the privatiza-

year," predicts Andrei Shleifer, Harvard University economist and adviser to GKI.

Objectively, I should be troubled by the concentration of ownership that Babanov and his managers seek. Subjectively, I should be rankled by the idea of some youthful go-getters staking a claim to the factories my forebears once owned and ran. In a cordial toast, Babanov seems to acknowledge the strange conjunction of past and present, suggesting that one day I might become a shareholder—by purchasing a share or two. Certainly, no one is about to give me any shares; there is no procedure in Russia for returning private property to former owners or their descendants, as there is in Germany and Eastern Europe. Yet I am not discomfited by what I have heard and seen here, only relieved and, in a strange way, heartened.

LIVING HISTORY. The buildings that my great-grandfather and his cousins built for the workers—kindergartens, schools, public baths, a hospital, a theater—are all still standing. The barracks housing, in which workers' families once lived in cramped quarters, has been converted to offices and libraries. The hospital, with its art nouveau wrought-iron railing, is now being restored. And a museum details the Morozov enterprises' history.

The stewards of this history seem oddly respectful of the Morozov paternalism—one that in some ways was a capitalist forerunner of the way many Soviet state enterprises provided for workers and their families. Today, Babanov scowls at news reports that factories are forced to close kindergartens. In Orekhovo-Zuevo, the kindergartens have remained open.

But whether they can remain so indefinitely is uncertain. Privatization will force many enterprises into bankruptcy, while those that survive will stumble along toward a new market economy. It took the entrepreneurial families of pre-revolutionary Russia four or five generations to move from being disreputable traders plying their wares at the annual fair in Nizhni Novgorod to becoming established industrialists in Moscow and St. Petersburg. Now, Russia's reformers are trying to telescope the process—and move it forward at the same time.

A frisson goes down my spine as we pass the buildings my great-grandfather once patrolled, where modern looms now turn out artificial fur for stuffed animals and winter coats. Entrepreneurialism and capitalism once thrived here, in a primitive form. Now, after a hiatus of 75 years, there is a chance that they can reemerge, grow and evolve, and eventually help people to live a better life. I can only hope that happens.

By Karen Pennar, with Rose Brady, in Orekhovo-Zuevo

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HIGH-TECH STAR

NORTHERN TELECOM IS CHALLENGING EVEN AT&T

Last February, Northern Telecom Chairman and CEO Paul G. Stern was scouting for a European partner to establish a beachhead in the Continent's sizzling new market for digital mobile phone gear. When word came that France's Matra was looking for a partner, too, Stern wasted no time. He called Matra CEO Jean-Luc Lagardère and then headed for Paris on his Challenger jet. Although Matra was already entertaining bids from AT&T, Siemens, and Philips, Stern persisted. "He's been flying across the Atlantic like I cross the English Channel," says Lagardère, who hit it off with the indefatigable Stern.

On July 2, Stern's frequent flying paid off: Northern Telecom Ltd. announced it will pay about \$310 million for up to 40% of Matra's communications division and a 5% stake in its parent. Their teaming up, Stern crows, "is just the beginning" of a broad European alliance that will span a whole range of telephone products.

BLOSSOMING OUT? Latching onto Matra is only the latest victory in Stern's continuing global assault. In the past two years, Northern has launched joint ventures in Poland and Spain, paid \$2.6 billion for Britain's STC PLC, and won business from China to Turkey to Australia to Russia. It is the largest foreign supplier of telecom gear to Japan's ultra-competitive market. By decade's end, Stern predicts, Northern will grow into a giant with up to \$30 billion in revenue, half from outside North America. "Our vision," he says, "is to be the leading telecommunications equipment company by the year 2000."

Not that many years ago, any sugges-

tion that this Canadian company could challenge such giants as AT&T, Germany's Siemens, France's Alcatel, Sweden's L. M. Ericsson, or Japan's NEC would have seemed preposterous. Until 1962, it was an appendage of AT&T, controlled and 44%-owned by Western Electric.

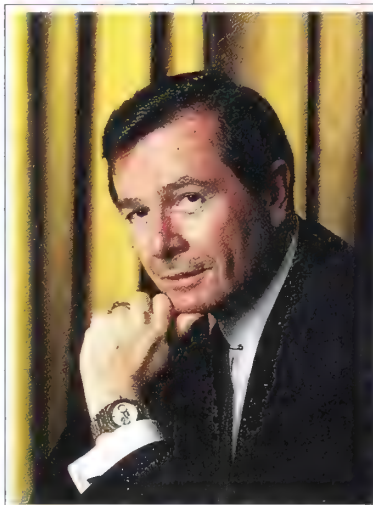
Alone, Northern seemed more likely to be swallowed up than to swallow.

But today, even competitors express admiration. Says Ryoi-chi Sugioka, Fujitsu Ltd.'s executive director for communications systems: "Northern Telecom is a great company, and we respect them enormously." Most think it will be among the few dominant survivors in a global industry whose sales will soar past \$200 billion by

the year 2000, from \$102 billion last year.

What is Northern doing right? Its research is world-class. It has cut manufacturing costs to the bone. It adapts, chameleon-like, to the colorations of local markets, including Japan (page 57). Finally, under the demanding Stern, Northern has created a no-excuses culture that pushes employees to perform to their limits. "I have trouble relating to people who don't want to excel," Stern says, a bit ominously, in a videotaped message to employees. Indeed, Northern Telecom is charging so hard on so many fronts that its biggest risk is spreading its forces too thin.

The 53-year-old Stern is a self-made man driven by almost limitless ambition. He was born in Czechoslovakia and reared in Mexico City. After attending college in the U.S., he earned a doctorate in solid-state physics at Britain's University of Manchester. Stern made up



▲ STERN HAS CREATED A NO-EXCUSES CULTURE



his mind in prep school to become wealthy, he says in his 1990 book, *Straight to the Top*. He wrote: "I had a dream of getting to the top, a dream that would later become an obsession."

In Northern Telecom, Stern has found a vehicle for that obsession. When he was named CEO in 1989, he took charge of a company that had already grown spectacularly. After the 1984 breakup of American Telephone & Telegraph Co., Northern stormed the U.S. market, tripling revenues to last year's \$8.2 billion. Previously, Northern had been all but shut out from the Bell System. Now, it threatens to surpass AT&T in the U.S. as



the leading supplier of digital central-office switches, the high-tech heart of the phone system. Northern also is neck-and-neck with AT&T in the market for office phone systems bought by businesses. And Northern's new joint venture with Motorola Inc. in cellular equipment, launched in May, could easily grab leadership in that fast-growing market. Northern still trails AT&T badly in transmission equipment, giving AT&T the lead in the overall U.S. equipment market. And AT&T says it's not conceding anything in switches, either. But the fact remains that Northern has made a deep-dent in AT&T's U.S. market share in

central-office switches than MCI and Sprint have in long-distance service. Northern even beat out AT&T to supply a digital switch to the White House. Meanwhile, Northern retains a hammerlock on its native Canada. **CONSTANT SHUTTLE.** Today, Northern is Canada's most successful multinational and perhaps the best example of a truly North American company. It is controlled by Canada's BCE Inc., which has a 53% stake and also owns Bell Canada. But Stern and many of the other top executives are American. They shuttle between almost identical office suites in the headquarters near Toronto and in

NORTHERN'S BROADER REACH



Northern Telecom, once a Canadian stay-at-home, got a quarter of its sales outside North America last year (chart). CEO Stern vows to boost that to 50% by decade's end by aggressively expanding into Europe and Asia

Region	Share
U.S.	50%
Canada	24%
Europe	18%
Other	8%

DATA: COMPANY REPORTS

◀ THE ECHO-FREE CHAMBER IS A PURE ENVIRONMENT FOR TESTING ACOUSTIC PROPERTIES OF HANDSETS, WIRELESS TERMINALS, AND HEADSETS

McLean, Va., outside Washington. With operations in North Carolina, Tennessee, Texas, and California, Northern's U.S. employment has exploded to 22,000, nearly equal to its Canadian force. And the U.S. last year accounted for 50% of Northern's total sales, vs. 24% for Canada. Although many Canadians are distressed by their country's free-trade embrace with the U.S., Northern Telecom has thrived from it. Now, Stern is out to transform Northern into a global company. He has little choice. While North America represents a third of world telecom sales, its importance will shrink as markets elsewhere

Cover Story

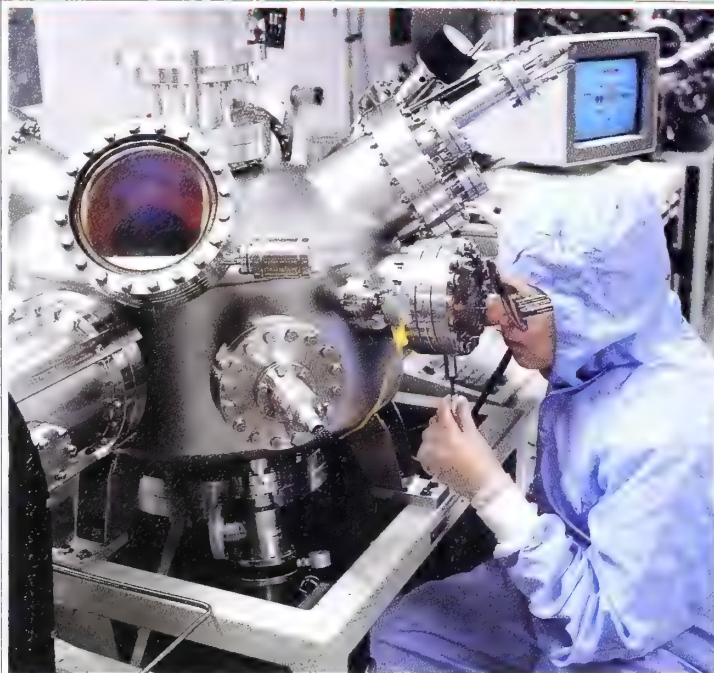
grow faster. Last year, Northern managed to get 26% of its revenue from outside North America, up from just 9% in 1989 (chart).

Stern is well-prepared to lead Northern into this battle. While studying for his doctorate, he forced himself to work seven days a week, earning the degree in half the normal four to five years. Soon after, he gave up research for management. During seven years at IBM, he received five promotions. Still unsatisfied, he jumped ship for Braun, the German consumer appliance company, where he became CEO and was known as the "German American," for his flawless German.

BIG CHANGES. After four years at Braun, Stern yearned for a bigger stage. He found it at Burroughs Corp., where in 1982 he became president. When Burroughs merged with Sperry to form Unisys Corp. in 1986, Stern became Unisys' first president. But he clashed with CEO W. Michael Blumenthal and resigned at the end of 1987. The next year, Stern joined Northern's board, and in March, 1989, he was named CEO.

At Northern, Stern has pushed radical change from day one, wiping out three layers of bureaucracy and recasting upper management. "Most of the old school is gone," says Alan G. Lutz, president of the Public Networks division. "Paul has kicked this place in the pants."

Lutz should know. When his division lost a \$100 million Nynex Corp. switch order to AT&T in late 1990, Stern called Lutz before the executive committee. It was a summons Lutz dreaded. Indeed, as he stepped to the podium, others in



◀ **NORTHERN HAD ADVANCED EQUIPMENT CUSTOM-MADE TO GIVE IT A LEG UP IN FIBER-OPTIC RESEARCH**

of how to sell the products they created.

To direct this marketing thrust, Stern recruited a savvy veteran from IBM: Edward E. Lucente, who had been Tokyo-based president of the \$12 billion IBM World Trade Asia Corp. Lucente, now executive vice-president, is rapidly expanding Northern's foreign sales force, another weak spot.

BIG EDGE. Northern is also becoming more adept at the political side of cracking foreign markets. In Spain, the company tapped a former Foreign Minister to head its joint venture. That paid off in June, when Telefónica de España ordered Northern data-network equipment.

The company's dual identity as Canadian and American proves to be an unusual advantage. When dealing with a government that might be unenthusiastic about giving a big deal to an American company, Northern plays up its Canadian identity to distinguish itself from AT&T. That also can work well with foreign phone companies, especially since AT&T is competing with those foreign carriers in providing some services. But in Japan, Northern has stressed its U.S. ties. Moreover, Northern has steered clear of the misalliances that plagued AT&T. Says Michael Arellano, an analyst for McGraw-Hill Inc.'s Northern Business Information: "They have learned from AT&T's mistakes."

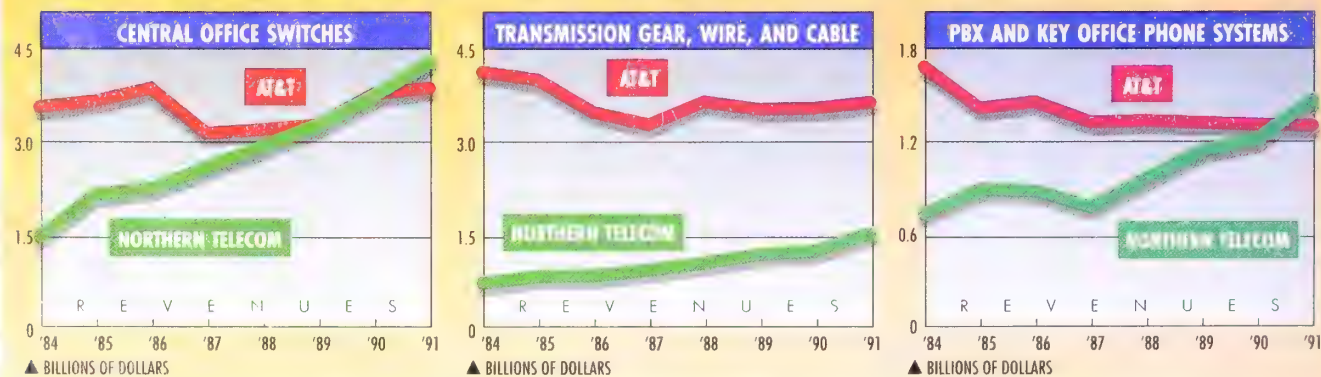
Most of Northern's overseas gains have come in Europe, where revenues

the room muttered bad jokes at his expense. Stern quieted them, saying: "We're not here to crucify anyone." But he added, pointedly: "We're here to find out what we did wrong so we don't do it again." Lutz took heed.

Stern is personally directing a "Vision 2000 Leadership Campaign" aimed at Northern's 57,000 employees. Organized like a political campaign, it has been to some 20 Northern locations since last August. At rallies, smiling workers march around carrying banners and shouting the campaign's slogan: "One team, one vision."

To push globalization, Stern reorganized the company last year to eradicate geographic fiefdoms, ordering that the development and making of products be managed globally. Simultaneously, he boosted marketing, Northern's weakest suit, by wrenching it from the hands of production executives who had little idea

HOW NORTHERN IS CATCHING AT&T AROUND THE WORLD



NORTHERN BUSINESS INFORMATION

have mushroomed fivefold, to \$1.4 billion, since 1989. And most of that growth came from the March, 1991, acquisition of STC. The deal was a near-perfect fit. STC strengthens Northern's presence in transmission equipment and makes it a major player in undersea fiber-optic cable systems. STC also gives Northern a solid entrée to British Telecommunications PLC, now its largest customer after Bell Canada.

On the Continent, Northern has done well in such niches as packet-switching gear for data transmission. So far, though, Northern hasn't landed many big-ticket sales. Even with STC, it has only 5% of the transmission market, far below leader Alcatel's 30%. "The French and German markets have been very difficult for us to crack," concedes Lucente.

The newly minted joint venture with Matra should help. By mating Matra's radio gear with Northern's switches, the companies will be able to compete for business from cellular network operators across Europe. In France, the Matra-Northern alliance will now be the supplier to beat in office phone systems.

ON THE ROAD. Stern is showing the flag in Europe, running full-page image ads in European newspapers and sponsoring a recent tour by the Montreal Symphony Orchestra. He visits Europe every two or three weeks, each time visiting four or five customers with Desmond F. Hudson, CEO of Northern Telecom Europe Ltd. That's important for a new player. Says Hudson: "Getting the chairman out here is critical to building broad relationships with these countries."

It's a start, anyway. With plenty of strong homegrown companies in place, Northern may require another major acquisition or two to meet Stern's goal of \$5 billion in European revenue by the late 1990s. One reason is that the locals are fighting back. Both Alcatel and Siemens, for example, argue that Northern and AT&T should be excluded from the open bidding on public phone network contracts that the European Community has scheduled to start next January as long as they continue to be exclusive suppliers to, respectively, Bell Canada and the long-distance service arm of AT&T. "There's a strong recognition in Europe that the U.S. and Canada are playing by double standards," says Josef Cornu, Alcatel's executive vice-president.

Asia is an even tougher nut to crack. Stern says he wants 10% of the huge Japanese market, and a big presence elsewhere in the region. But the Japanese market remains dominated by NEC, Fujitsu, Hitachi, and Oki Electric, and may be for some time to come. Stern says he's fascinated with the idea of teaming up with a Japanese company to help Northern "get to a much bigger

THE SECRET TO NORTHERN'S JAPANESE SUCCESS: WHEN IN TOKYO...

When Northern Telecom Ltd. installed its first central-office switches in Japan in 1989, the Canadian company's U.S. technicians were fast but not fastidious. Tools were scattered around. Packaging materials got left at installation sites. And while Japanese co-workers switched into slippers before entering the office, the Americans kept on their boots. That style flopped with Japanese customers. Says John D. MacDonald, chairman of Northern Telecom Asia/Pacific: "We managers weren't paying attention to the right details."

Today, Northern has mastered Japanese etiquette and a lot more. Its U.S. technicians are better trained, and the company bows to Japan's grueling technical specifications. It's also matching the competition point for point on quality. As a result, Northern has penetrated deeper into Japan's tough telecommunications market than any other foreign supplier. "We're learning to make it in a market with the highest quality standards," says MacDonald. "That pays off in lower costs and enables us to compete in other regions."

HINTS. Conquering Japan, the third-largest telecom market in the world, is critical if Northern wants to reach its ambitious target of \$30 billion in sales worldwide. It could also bring in serious cash. Since Northern's first big contract with Nippon Telegraph & Telephone Corp. in 1986, it has installed 300 small and midsize switches with the former monopoly. Smaller Japanese carriers are snapping up even more advanced systems. And Northern is using Japan as a launching pad for business in Korea, China, and Taiwan. Asian deals produced an estimated \$200 million in sales last year. These yielded \$17 million in profits, according to Teikoku Data Bank Ltd. Now, says Northern Telecom Japan President Roger Moore, "we're ready to reach a new level."

How? By loosening the grip of NEC, Fujitsu, Hitachi, and Oki, the Big Four

of Japanese telecom that account for 94% of equipment sales to giant NTT. Having strengthened its relationship with NTT since the late 1980s, Northern is on an inside track to jointly develop and manufacture a new generation of large digital switches. Neither company will discuss the details. But NTT President Masashi Kojima hints that "if a [foreign] company can develop a good, general-purpose switch, they could gain significant market share."

Kojima hasn't promised anything to Northern. But the Canadian company has spent years developing advanced features for the North American market, such as software that identifies and denies access to repeat crank callers. Many of these services are not yet available in Japan. And unlike rival American Telephone & Telegraph Co.,

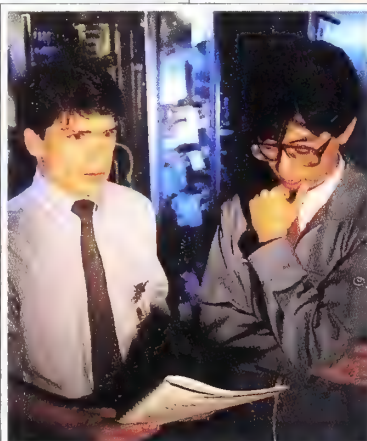
Northern won't even compete directly with the Japanese phone giant in voice or data services inside Japan.

Northern also plays the political game smartly in Japan. When NTT was privatized in 1985, Washington lobbied to assure a place for American companies in the newly deregulated market. Northern helped prod Washington into action and then made no secret of the close

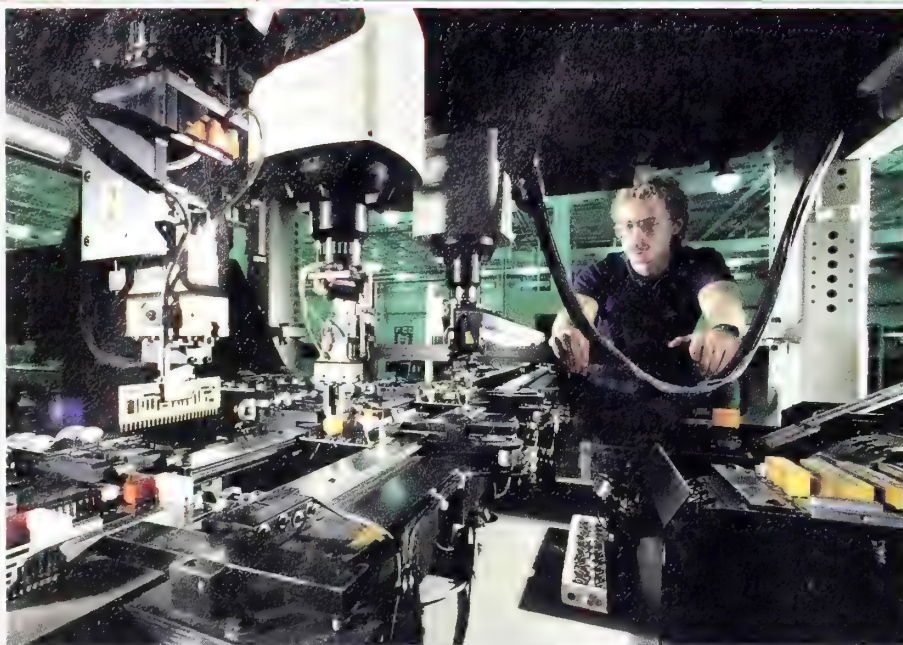
personal ties between Ed Fitzgerald, chairman of Northern at the time, and U.S. Trade Representative Clayton Yeutter. Later, when the company installed its first digital switch with NTT in 1988, the inaugural call placed during the demonstration went not to Ontario, but to the office of the USTR.

It will be years before Northern can prove it has penetrated Japan in a lasting way. But that doesn't discourage Moore. He believes his company has established the working relationships and credibility that are so critical in Japan. "NTT's vision of the future will require substantial changes," he says. "They know we can maintain a complicated system." After navigating the ins and outs of Japanese culture for five years, Northern looks set to begin enjoying more of the rewards.

By Neil Gross in Tokyo



▲ NORTHERN AND NTT TECHNICIANS: MASTERING JAPANESE ETIQUETTE



◀ A NONUNION WORK FORCE AND AUTOMATED PRODUCTION LINES SUCH AS THIS ONE IN NORTH CAROLINA HAVE DRIVEN NORTHERN'S MANUFACTURING COSTS DOWN

size" in Japan. Hitachi Ltd., which has been consummating lots of joint ventures recently, is a potential partner. So is Oki. On the Asian mainland, China has bought about 15% of its digital network switches from Northern.

All his global plans hinge on Stern's ability to maintain his position in North America, which last year provided 89% of Northern's operating earnings. Stern aims to increase U.S. revenues 10% to 12% a year, twice the industry pace.

COMEBACK. One key to winning in North America's slow-growth market will be cutting-edge technology. In the '80s, Northern's pioneering of the digital switch changed it from a small Canadian supplier to a global giant. Now, Northern hopes to lead another revolution: the conversion to fiber-optic technology in transmission equipment. Backed by a \$1 billion research budget, Northern engineers hope to leap from also-ran to leader in transmission gear. Last year, Northern's revenues in switches were five times greater than in its transmission business, which captured only 7% of the U.S. market. Says Lutz: "I won't be satisfied until our transmission business is the same size as our switch business."

Northern also intends to come from behind in cellular and wireless equipment. Because it was preoccupied with digital switching, Northern missed the beginning of the cellular revolution. But now it has teamed up with Motorola: a union that consultant Herschel Shostek calls "a marriage of convenience destined for passion."

The engine of new-product development is Bell-Northern Research, the company's Ottawa-based research arm. It may lack the Nobel prizes of AT&T Bell Laboratories, but BNR's developmental work is state-of-the-art. Its projects range from testing phone gear in echo-proof rooms that resemble medieval torture chambers, to custom-building devices for making specialized chips that go into fiber-optic transmission gear.

Northern's rivals, including AT&T, often scoff that the company wins big orders only because it's the low bidder, not because it has superior quality. In some cases that may be true—but it merely highlights the importance of Northern's focus on becoming a low-cost manufacturer. Frederick Scott, director of the Boston University Manufacturing Roundtable, calls Northern's switch factory in Research Triangle Park, N.C., "one of the top manufacturing operations in the world."

Most workers in Research Triangle Park belong to self-directed work teams, set their own shifts, and chart their own

productivity. Workers are paid salaries, ranging from \$18,000 to \$30,000. None of Northern's U.S. production workers are unionized, compared with nearly 100% of AT&T's. Larry Cohen, director of organization for the Communications Workers of America, calls the North Carolina plant a "sweatshop," but he concedes that workers there might not vote in favor of a union if given the choice.

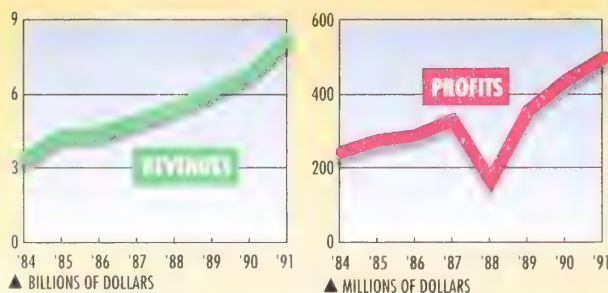
AT THE TOP. The push to drive down manufacturing costs is typical of Stern's regimen. Despite his long-term vision, he has never lost sight of the bottom line. He boosted Northern's gross margins to 42% last year, from 39% in 1989, by brutally trimming costs. Northern posted 11 straight quarters of record earnings through the end of March. Although the company was expected to announce lower second-quarter sales and operating earnings on July 21, partly because of the sale of some STC operations, analysts still expect increases for the full year.

Northern still faces enormous challenges. As Stern is fond of pointing out, a decade ago 25 major equipment suppliers operated worldwide. Today, he figures, seven are left—and most observers expect further consolidation. Outside North America, Northern still lacks on-the-ground experience. Some of its rivals, such as Siemens, get more help from their home governments, such as low-interest loans to customers in developing countries. Northern also is going up against diversified enterprises with huge revenue streams: AT&T, for example, with long distance, computers and financial services, had total revenue of \$63.1 billion last year, nearly eight times that of Northern.

All that said, Northern has never been in better shape. It's at the top of its industry in research, technology, and manufacturing ability. With AT&T, it dominates North America. And since Stern's arrival, it has made big strides overseas. Realistically, Northern probably won't be the largest global player by decade's end: Alcatel and AT&T are both too far ahead. But even if Stern's obsession doesn't make Northern Telecom No. 1, the company that came down from Canada is clearly headed for a major role on the world stage.

By William C. Symonds in Toronto, with Jonathan B. Levine in Paris, Neil Gross in Tokyo, and Peter Coy in New York

NORTHERN TELECOM COMES ON STRONG



DATA: COMPANY REPORTS



TOSHIBA SENIOR VICE-PRESIDENT TSUYOSHI KAWANISHI, SIEMENS PRESIDENT KARLHEINZ KASKE, IBM PRESIDENT KUEHLER: A DAUNTING AND EXPENSIVE VENTURE

TALK ABOUT YOUR DREAM TEAM

Can IBM, Siemens, and Toshiba design the next big chip? Maybe

It has to be the alliance of all alliances: On July 13, a deal lasting eight years or more and worth up to \$1 billion was announced by IBM, Toshiba, and Siemens. They are, in order, the world's biggest computer company and chipmaker, Japan's second-largest chipmaker, and Europe's No. 3 semiconductor house. Even in the semiconductor business, perhaps more globalized than any other, nothing quite like this linkup has ever taken place. But then, what these powerhouses are setting out to do has never been attempted before.

The three companies are joining forces to develop a semiconductor technology so daunting and expensive that none dared risk it alone. The goal is a 21st century chip on whose tiny silicon surface will be etched what amounts to a street map of the entire world. Those electronic streets—lines just 0.25 micron wide, 400 times thinner than a human hair—will link some 600 million transistors. When the chips become available around 1998, each will store 256 million bits of data, or about two copies of everything

that Shakespeare wrote. The same technology will also be useful in creating microprocessors with the power of today's supercomputers.

What it will take to design and produce such dense and elaborate circuits—except for scads and scads of money—nobody really knows. The trio expects that just designing the first 256-megabit memory chip and its fabrication process-

es will gobble a cool \$1 billion, and building factories to produce the chips in volume will run another billion each.

These kinds of astronomical costs are the reason such huge international alliances are sure to become the norm in the future. In fact, on the same day IBM, Toshiba, and Siemens broke their news, Fujitsu Ltd. and Advanced Micro Devices Inc. announced a sweeping plan to collaborate on EPROMs, or electrically programmable read-only memories, and flash chips. In addition to splitting the cost of a new, \$700 million plant, the two companies intend to purchase up to 5% of each other's stock as insurance.

All this cross-border partnering muddies the water for U.S. politicians accustomed to championing national competitiveness. In September, a House science subcommittee will hold hearings on Sematech Inc., the Austin (Tex.) consortium set up in 1987 to restore America's competitiveness in chipmaking technology. Sematech has already received \$500 million in federal funds, so lawmakers are sure to ask some tough questions, predicts a House staffer. "After all the screaming and yelling about keeping the U.S. competitive when people were trying to get Sematech started," he says, "why, all of a sudden, are we signing up with our worst enemies?"

Because of antimonopoly laws, says Clyde V. Prestowitz Jr., president of the Economic Strategy Institute and a noted critic of U.S.-Japan trade relations. "You know what would've happened if IBM had slipped into bed with two American companies the size of Toshiba and Siemens." Similarly, the Japan Fair Trade Commission would probably have slapped down any Toshiba plan to nuzzle up to, say, NEC Corp. and Hitachi Ltd.

HOOKUPS. The semiconductor industry started making the argument for international alliances years ago. Pasquale Pistorio, president of SGS-Thomson Microelectronics Inc., Europe's second-largest chipmaker, has been predicting since 1983 that by 2000 only a handful of suppliers will be able to retain global market shares of 5% or more. Others will be niche specialists, with segments of 0.5% or less. William P. "Pat" Weber, head of Texas Instruments Inc.'s chipmaking operations, says that learning to share risks will be a necessary condition of survival.

The worldwide semiconductor industry is already a crisscross of major collaborations. Texas Instruments is teamed with Hitachi, and Motorola Inc. with Toshiba, both since the late 1980s, to develop memory chip technology. Those



pacts, and one between American Telephone & Telegraph Co. and NEC Corp., may soon be extended to more advanced chips. Toshiba Executive Vice-President Hideharu Egawa says IBM and Siemens have tacitly agreed Toshiba can share with Motorola technology developed by the three new partners. The reverse will also happen, because IBM is cooperating with Motorola to develop ways to "print" ultra-dense circuits with X rays.

Intel Corp., says Chairman Gordon E. Moore, is "making phenomenal capital investments" in microprocessors for personal computers and other markets. But it signed on with Japan's Sharp Corp. to share the cost of a factory to make flash memory chips, a new type of storage that retains data even when turned off.

With U.S. companies embracing transnational alliances, Sematech may now actually be more important than ever, says Ian M. Ross, president of AT&T Bell Laboratories and former chairman of the National Advisory Committee on Semiconductors, which was established by Congress in 1988. To keep jobs in the U.S., Ross explains, "our companies must be able to negotiate from positions of strength—in manufacturing as well as design." Production has often moved overseas, he adds, because U.S. chipmakers lacked the manufacturing muscle Sematech is helping to develop.

Large U.S. chipmakers, moreover, don't see international alliances tempering their desire for domestic competitiveness. "It won't take any fervor out of my argument that Japan ought to be buying more U.S. semiconductors," declares Intel's Moore. Adds IBM President Jack D. Kuehler: "We've absolutely got to have a healthy semiconductor industry in this country in order to have a healthy electronics industry—and that's also true for Europe and for Japan." That's why IBM is "firmly committed to Sematech," he says, and to Jessi, its European counterpart. Now that Sematech and Jessi are helping to stabilize the U.S. and European chipmaking industries, IBM figured it was time to try a three-way hookup.

To Bell Labs' Ross, the terms of the IBM-Toshiba-Siemens deal prove that American chipmaking knowhow is winning new respect in Japan. The 256-megabit project is centered at IBM's new Advanced Semiconductor Technology Center in East Fishkill, N.Y., where a trilateral team of some 200 engineers will report to a Toshiba manager. It could be the prototype for more ventures, in various industries, uniting all three continents.

By Otis Port in New York, with Richard Brandt in San Francisco, Neil Gross in Tokyo, and Jonathan B. Levine in Paris

WANG IS RUNNING OUT OF RUNNING ROOM

Endless missteps have brought the computer maker to its knees

Barnstorming the country to show off a new product this spring, Wang CEO Richard W. Miller asked customers to forget much of his troubled company's recent history: turnarounds that never materialized, delayed products, and huge financial losses in four of the past five years. Instead, he promised them a company free of troubles—a "new Wang."

company would not comment for this story or, specifically, on its current financial position. But the analysts who follow Wang are uniformly negative. "The company has not been able to stem the tide of continued operating losses," says Moody's Investors Service Inc. bond analyst Byron Walker. "They're running out of alternatives."

Indeed. Wall Street analysts expect a

\$10 million operating loss in the fiscal fourth quarter, ended June 30, before including a \$40 million charge for layoffs and restructuring. The operating loss for the full year is expected to be \$32 million, compared with a \$378 million loss in fiscal 1991. Although the losses have narrowed, Wang executives have begun to consider a distasteful option: breaking the company into pieces. Current and former employees say the company's board of directors began in late June to debate the sale of Wang's computer service business, which has annual revenues of \$800 million and is Wang's chief source of cash flow.

SWIFT EROSION. Barring a quick sale of that business, Wang's cash position could turn critical as early as September, reckons analyst Walker. Its \$175 million in reserves at the end of March is being eroded by the June quarter's operating losses, employee severance, and costs for

closed buildings. What's more, the latest financial reports showed Wang with \$28 million in outstanding loans that could be called if the company's net worth falls below a negative \$25 million. And Wang must ante up \$35 million for another loan due to Rabobank Group in the Netherlands in December. Mutual-fund giant Fidelity Investments, once one of Wang's more important institutional investors with 4.2 million shares, isn't



If only it were so. As if a brutal recession wasn't enough, crucial missteps by Miller helped extinguish all but the faintest hopes of keeping Wang Laboratories Inc. intact. According to quarterly financial reports for the Lowell (Mass.) minicomputer maker, cash flow turned negative last fall, short-term debt is mounting, and by last March, asset sales had already slashed the \$1.9 billion company's net worth to just \$48 million. The

waiting to find out. It said it recently bailed out of the stock, which is trading at around 3 1/4, close to its all-time low of 2 in late 1990.

The picture was a lot different in the early 1980s. Then, Wang was a thriving success story overseen by the late An Wang, a Chinese immigrant who founded the company in 1951 and built it into a \$3 billion word processing and mini-computer dynamo by 1988. But industry-standard PCs savaged the company's proprietary word processing systems, and poor management by Wang's chosen successor, his son Frederick A. Wang, didn't help.

LOST CHANCE. Enter Miller, a highly regarded turnaround specialist who cut his teeth on the Penn Central bankruptcy in 1970. As an executive at General Electric Co., he was fresh from running GE's TV operations when Wang beckoned in 1989. Though he had no previous experience in the computer industry, Miller

banded group of Wang customers.

Critics say Miller also took his time addressing shortcomings in product development. "He thought he could tweak the organization, and it would be fine," says a former marketing executive, who asked not to be named. "The real problem was a lack of technology to sell." Indeed, Miller waited more than two years before he brought in a new R&D chief, Donald Casey, from Lotus Development Corp.

DEVILISH DEAL. Eventually, the lack of significant new products forced Wang into a Faustian bargain with its biggest rival. A year ago, Miller agreed to resell IBM AS/400 minicomputers in exchange for an immediate \$25 million in cash and potential sales commissions of up to \$75 million. The deal's drawbacks are now becoming clear. Wang's VS mini customers are switching to IBM gear in alarming numbers. According to a recent survey by market researcher Computer Intelligence Corp., 50% of Wang customers' future purchase plans include the AS/400, up from 7% last September. Wang wins commissions on the sales of IBMs, all right. But it gets no service revenues on the AS/400s, as it would have if the sales had been of its own computers.

It's not clear what options Miller has beyond asset sales if things don't pick up soon (table). Through a spokesman, he and other Wang executives declined comment until after fiscal year results are released the last week in July or the first week in August. But Miller conceded in a recent interview with *Financial World* magazine that he vastly underestimated the company's troubles. Where he initially thought just 20% of Wang needed mending, he says in the article, in fact an 80% overhaul was necessary.

Miller may gain some breathing space from a court ruling issued June 15. The decision permits the company to charge full price for basic software when customers upgrade their Wang computer or buy a used one. Previously, only new customers paid full price. As a result, the company dashed off invoices to hundreds of customers on the last day of its June quarter, demanding up to \$100,000 in new software fees from each.

Barring a windfall from such fees, Wang faces a possibly desperate cash crunch with the arrival of the traditionally slow summer quarter ending in September. By then, the "new Wang" that Miller once envisioned could be a pale shadow of its already-shrunken self.

By Gary McWilliams in Boston

WHAT'S LEFT FOR WANG TO SELL?

Business	Estimated value	Problems
SERVICE BUSINESS	\$650 million	Critical source of operating cash
TAIWANESE FACTORY	\$150 million*	In legal tussle
PC BUSINESS	\$150 million	Few potential buyers in weak market

*Value of Wang's 70% share DATA BW

was given a \$1 million-a-year salary to save the company. His first move was to retire all of Wang's \$575 million in bank debt through rapid-fire asset sales. He also revamped a notoriously bad order-tracking system, earning Miller the admiration of customers such as Hugh V. Naughton, director of information systems at Gas Research Institute. Naughton says: "He's one of the best things that ever happened to Wang."

So why hasn't Miller's high-profile turnaround shown better results? Clearly, the recession hasn't helped. And Miller's sheer inexperience with computers led to several wrong turns. For instance, he pressed for the development of a new line of "open" minicomputers, based on industry-standard Unix software, while at the same time promising customers continued investment in Wang's proprietary VS minis. Customers who lived through recurring research and development setbacks at Wang worried that the company would be unable to handle two major programs at once. By the time Miller scrapped the open-systems project, he had wasted precious goodwill. "Wang didn't seem to know what it wanted its role to be," says Lehman Brothers Senior Vice-President Helen van Eeden, who led a now-dis-



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THE PRIZE CATCHES BEING EYED BY BIG BANKS

Three smaller institutions' lucrative markets make them prime takeover targets

Merger fever has taken hold of bankers. Hoping to grab market share, large banks are shopping among their smaller brethren. Several thousand of the nation's 11,806 commercial banks could be swallowed up in the coming consolidation. True, potential buyers are moving slowly. Lower interest rates and stronger earnings have boosted the value of even weaker banks. But patient investors can still find attractive buyout candidates. The following banks are among those whose stocks generate the most takeover talk.

UJB FINANCIAL: FLUSH IN THE JERSEY SUBURBS

If Neil J. Weisman had his way, UJB Financial Corp. in Princeton, N. J., would be history. The dissident shareholder makes a blunt prediction about the likelihood of a takeover of the \$13.6 billion bank: "This year's annual meeting was the company's last."

Many analysts on Wall Street have begun to think like Weisman, who re-

cently led an unsuccessful proxy battle against UJB to promote a buyout and whose firm, Chilmark Capital Corp., owns nearly 10% of the bank's stock. The state's third-largest bank holding company, UJB has an enviable franchise of 265 branches in affluent suburbs stretching from central Jersey to eastern Philadelphia.

While UJB has been battered by the depressed real estate market and the weak economy, analysts say it is now on the mend. Second-quarter earnings were

up more than 150% from a year ago, to 21¢ a share. Analysts estimate the full year's earnings will be over \$1, more than double 1991's 45¢. Although UJB's return on equity of 4.94% is well below its peers, it's still much improved from the 1.79% that UJB reported a year ago.

BIG BATTLE. Weisman's high-profile proxy battle has already sent UJB's stock rocketing. At 18¼, it's up almost 30% from the start of the year. But the stock is trading at about 110% of book value, well below the 156% of book value that the top 50 regional banks average. Analysts estimate that a buyout offer could drive the share price to 25 or 30.

Analysts cite an impressive list of possible suitors who view UJB as an entrée into the lucrative New Jersey market. They include heavy hitters such as Philadelphia-based CoreStates Financial, First

Fidelity of Newark, N.J., and Bank of New York. Pittsburgh's PNC Financial Corp. and Mellon Bank Corp. are also possible buyers.

The UJB board has said it would consider any offer "that was at all attractive." But Chief Executive T. Joseph Semrod, who declined to comment, has told shareholders in the past that it's the wrong time to be selling. "The sense is that they want to hunker down and fix the thing on their own," says John A. Heffern, an analyst with Baltimore-based Alex. Brown & Sons Inc. The likelihood is that UJB won't have the chance.

By Janet Bamford in Princeton, N.J.

CULLEN/FROST: SHINING IN THE LONE STAR STATE

Veteran banker T. C. Frost steered the institution founded by his great-grandfather, a former Texas Ranger and colonel in the Confederate Army, through the turbulent years after oil prices collapsed in the mid-1980s. Now, with loan losses down, earnings up, and the local economy rebounding, the 64-year-old chairman of San Antonio-based Cullen/Frost Bankers Inc. faces yet another challenge. As the largest remaining independent bank in Texas, Cullen/Frost is extremely vulnerable to a takeover. Every other promising Texas bank of any size has already been gobbled up by one of three out-of-state powerhouses—Banc One, Chemical Banking, and Nations-Bank.

So far, Frost, who himself owns 3.7% of Cullen/Frost's stock, insists that he isn't interested in selling to an "outlander." But many analysts speculate that a buyout may be just a matter of time. With just \$3 billion in assets, the bank will find it tough to compete.

Cullen/Frost's franchise is tempting. With 23 branches, it is one of the leading banks in San Antonio, the third-largest city in Texas. Indeed, it's running neck-and-neck for market share with Nations-Bank. Cullen/Frost also has banking subsidiaries in Houston, Galveston, Dallas, Austin, and Corpus Christi.

'SCRUBBED CLEAN.' Another selling point is its steadily improving balance sheet. After being buffeted by waves of bad energy and real estate loans, the bank's loan portfolio now looks a lot healthier. Nonperforming assets dropped to 2.87% of total assets at the end of the first quarter from 4% a year ago. "It appears they've scrubbed the deck clean on credit issues," says David S. Berry, associate director of research for Keefe, Bruyette & Woods Inc. Earnings have begun to respond as well. Profits in the first quarter were up almost 60%, to \$3.3 million. While Cullen/Frost's overall profitability is well below average, its return on

TEN TOP BANK TAKEOVER CANDIDATES

Company	Assets Billions	Share price*	Price- earnings ratio**
MNC FINANCIAL Baltimore Expected to post 1992 operating loss but has good franchise in attractive market	\$17.0	11¼	—
UJB FINANCIAL Princeton, N.J. Has been embroiled in protracted dispute with dissident shareholders pressing for a buyout	\$13.2	18¾	17.5
HUNTINGTON BANCSHARES Columbus, Ohio Solid, profitable bank that could be gobbled up by bigger rivals Banc One and National City	12.0	23¾	11.7
BAYBANKS Boston An excellent consumer franchise in a rapidly consolidating region	9.3	36¼	22.9
OLD KENT FINANCIAL Grand Rapids, Mich. Well-managed regional with good earnings is a possible target for expanding Detroit banks such as Comerica	8.7	41½	10.7
MARSHALL & ILSLEY Milwaukee Located in a state with a robust economy and little out-of-state bank presence	7.3	59%	11.9
WEST ONE BANCORP Boise After making acquisitions in Washington, Oregon, and Utah, this bank is itself an attractive target	5.3	41	10.8
BANK SOUTH Atlanta Largest independent bank in Atlanta. Could lure buyout interest from Southeastern regionals	4.4	10¾	51.2
COLORADO NATIONAL BANCSHARES Denver The biggest independent remaining in Colorado, a sought-after market	3.2	33¼	20.5
CULLEN/FROST BANKERS San Antonio The only large thriving independent left in the highly concentrated Texas market	3.0	28½	20.6

* July 15, 1992 ** Based on average projected 1992 earnings

DATA: BW SURVEY OF ANALYSTS AND FUND MANAGERS; ZACH'S INVESTMENT RESEARCH INC.

equity increased to 7.4% from 4.7%.

Takeover speculation has sent Cullen/Frost's stock price soaring. After closing 1991 at 15½, the stock is now at 28½, almost four times its 52-week low of 7½. It currently trades at a healthy 145% of book value. Still, some analysts say the stock has further to go. Buyouts of similar banks fetched prices nearly twice book value.

For the moment, Frost says his priority is to win new business for the bank. And he isn't afraid of going head-to-head

with the competition. "We've competed with the best banks in the nation before," he says. Trying to beat them, though, may eventually prove a lot less attractive than joining them.

By Suzanne Woolley in New York

MARSHALL & ILSLEY: LOW-KEY IN MILWAUKEE

"Your Strong Partner." That's how Marshall & Ilsley Corp. describes itself in its advertising campaign. But it's also how a number of out-of-state banks on the acquisition trail have begun to view Wisconsin's second-largest bank holding company. Says analyst Thomas H. Hanley of First Boston Corp.: "You can kiss it goodbye."

Among the hordes of possible buyers who are interested in using M&I to expand their now-minimal presence in Wisconsin, say analysts, are Chicago's Northern Trust, KeyCorp of Albany, N.Y., and NBD Bank of Detroit.

M&I would be a prize catch. Founded in 1847 in Milwaukee by Samuel Marshall and Charles F. Ilsley, the bank is solid, profitable, and located in a state with a surprisingly resilient economy. And with \$7.4 billion in assets, M&I has a relatively pristine balance sheet. Nonperforming assets make up less than 1% of total assets. "By practicing conservative banking principles, they've outshone almost all the other larger banks in the U.S.," says William Hummer, a leading Midwest bank analyst with Chicago's Wayne Hummer & Co.

CROWN JEWEL. Then, there is M&I's crown jewel, its data processing business. It handles back-office chores for 400 other banks. "The processing business is worth a fortune," says Hanley. Fee income from this operation was \$27.2 million in this year's second quarter, up almost 25% from a year ago. The bank's overall return on equity in the second quarter was an above-average 17%. And that's likely to improve. Analysts forecast 1992 earnings of \$4.98 a share, or 10% higher than in 1991.

M&I won't go cheaply. At 59%, the stock is double its 1990 close. It's also almost double its book value and 12 times estimated 1992 earnings. Still, many analysts expect further appreciation. Hanley, for one, sees a price tag in the 70s before yearend.

Marshall & Ilsley's chairman of 29 years, John A. Puelicher, won't respond to questions about a potential takeover. The bank has traditionally avoided publicity. But its low profile is unlikely to discourage those who have M&I in their sights. For many banks, having Marshall & Ilsley as a partner has a logic too compelling to ignore.

By Ann Therese Palmer in Milwaukee

THIS RESCUE IS RAISING MORE QUESTIONS THAN CHEERS

Can states really handle insurance failures like Mutual Benefit's?



PALMIERI'S PLAN MUST PASS IN THE NEW JERSEY ASSEMBLY AND IN 42 OTHER STATES

It's a tremendous victory for policyholders," declares Victor H. Palmieri with an air of euphoria. Palmieri was appointed chairman of Newark (N.J.)-based Mutual Benefit Life Insurance Co. after it was seized by regulators in July, 1991. It was the largest insurance company failure ever. On July 13, along with New Jersey Insurance Commissioner Samuel F. Fortunato, an industry consortium, and a state regulators association, Palmieri announced a bailout plan. "It removes policyholders' anxiety and guarantees them their principal and a minimum interest rate," he says.

But the celebration could well be premature. Some 42 other states where Mutual policyholders reside must approve the plan. And Palmieri must persuade a balky New Jersey Assembly to pass legislation that will put Mutual's policyholders before creditors. Several creditor banks are fighting the measure.

Mutual's 800,000 hold-

ers of policies and annuities have other reasons to wonder how much of a victory has been fashioned. For a full year, Palmieri, executives from other insurers, and regulators haggled over the bailout. At times it was far from clear that any deal could be arranged. During that period, money belonging to policyholders was frozen while they were required to keep making premium payments.

ROOM FOR IMPROVEMENT. Even under the new plan, policyholder assets will continue to be frozen for 7 years, except for hardship, death, and disability payments. The payout to others could be even longer. "I was going to use my money for retirement. Now that's out of

the question," says Clara Markovich, 66-year-old former hospital secretary who has \$14,000 tied up in a Mutual annuity. Under the new plan, she will get a minimum interest rate of 3.5% and be able to withdraw only 10% a year.

With the specter of further large insolvencies hanging over the troubled industry, Mutual Benefit serves as a cautionary tale. The lesson is that there is vast room for improvement in the current system of state regulation of life insurance companies. Before and even after a rescue, policyholders are often suspended in a never-never land of uncertainty over their assets. They have few rights and are at the mercy of powerful interest groups. "The state regulation of the insurance business has very serious shortcomings," says Joseph M. Belth, professor of insurance at the University of Indiana.

Regulatory lapses began even before Mutual's seizure. Like many insurers, the company went big into the guaranteed insurance contract (GIC) business, where it agreed to pay customers a fixed return on their assets. It then invested the assets in real estate, often at lofty prices. Today, some 63% of Mutual's estimated \$8.5 billion in assets is locked up in the now depressed real estate market. Its assets are \$800 million less than its liabilities.

POSSIBLE RUN. State regulators were slow to catch on to Mutual's problems. Financial examinations are made only every five years. Mutual's latest report, in mid-1990, covered 1982 through 1987. "The financial examinations are so complex and take so long, by the time you get the report, it's outlived its usefulness," admits Commissioner Fortunato.

Fortunato only found out about Mutual's problems when the company told him in April, 1991. Mutual officials warned of a possible run by pension customers if Mutual's credit rating was downgraded. That's just what happened, which forced the state seizure.

Regulators were unprepared. New Jersey, home of some of the U.S.'s largest insurers, was one of only two states without a guaranty association. The legislature quickly passed legislation to establish a fund the day after Mutual was seized.

Most Mutual policyholders in other states were covered by their own guaranty associations. Yet these are patchwork arrangements with widely varying provisions. Unlike the Federal Deposit Insurance Corp., which insures bank deposits, th-

LESSONS OF THE MUTUAL BENEFIT MESS

REQUIRE MORE FREQUENT FINANCIAL EXAMINATIONS OF INSURERS The last Mutual Benefit exam was filed in mid-1990 for the period 1982 to 1987

BOLSTER STATE GUARANTY ASSOCIATIONS Mutual Benefit is not expected to get guaranty funds to pay off policyholders until more than a year after its July, 1991, collapse. Policyholders will not get full reimbursement for seven years

MAKE SURE STATES HAVE LAWS THAT PUT POLICYHOLDERS AHEAD OF OTHER CREDITORS The Mutual Benefit bailout plan is stalled until the New Jersey Assembly passes such a law

state associations can't reimburse policyholders immediately. When an insurer fails, other insurers must then be assessed for the money. They usually don't have to pay until a bailout has been arranged. "State guaranty associations haven't been triggered yet, one year after Mutual Benefit failed," says Belth. "The idea that somebody puts his life savings into a life insurance policy and is unable to get his money is unacceptable." Belth favors some prefunding of state guaranty associations so money would be available right away.

After long, arduous negotiation, Palmieri worked out a deal with other states so that policyholders could deal directly with Mutual and the states would guarantee the cash value of their policies, regardless of the individual state limit. "It cost us another four to five months, but it was worth it to remove the gaps in coverage," he says.

'SIGNIFICANT LITIGATION.' There were other hitches. Unlike 43 other states, New Jersey had no legislation that gives policyholders priority over other creditors. Passage of such legislation is now crucial. The state's major insurers, which spent months working on a bailout plan to avoid pressure for an FDIC-type rescue mechanism for insurers, have agreed to guarantee Mutual GIC holders' principal. Optimistic insurers don't expect this to cost them anything. Most of the estimated \$200 million to

bail out policyholders will be paid by state associations. But the agreement is conditioned on passage of the legislation, which has already stalled once in the Assembly. Without the legislation, the consortium might have to bail out creditors before policyholders. "If it fails, the agreement we reached with the industry consortium and the [state guaranty associations] goes up in smoke," says Fortunato.

The result: a massive lobbying battle between New Jersey's Democratic ad-

'That somebody puts his life savings into a life insurance policy and is unable to get his money is unacceptable'

ministration and a team-up of the Republican-controlled Assembly and Mutual's biggest creditors—Citicorp, Morgan Guaranty, and Bankers Trust. The banks have as much as \$114 million tied up in interest-rate swap contracts with Mutual. This is a fraction of the \$8.25 billion in claims owed to policyholders, but bankers worry they'll get nothing if the bill is passed. "We don't think it's fair to screw the creditors to save the policyholders," says bank lobbyist Wes-

ley S. Caldwell. "No matter what happens, there's going to be significant litigation over all these issues." If the bill isn't passed soon, Fortunato threatens to implement a bailout using only Mutual's assets, which would reduce account values and annuities by 12%. Policyholders and annuitants would be seeing losses if their various guaranty funds didn't make up the difference.

Everything could turn out well. The real estate market may turn around, allowing Mutual to regain its health and pay off policyholders without recourse to the guaranty associations. Palmieri even plans to start looking for a buyer soon who could salvage part of the company's customer and agent base. Yet questions may persist about whether the elaborate ad hoc maneuverings and iffy state regulatory apparatus that bailed out Mutual Benefit are the best way to deal with large insurance failures.

Palmieri backs that state system. He believes, along with the rest of the life insurance industry, that the Mutual Benefit bailout plan is proof that the state system works. It did avert a potential disaster, such as total liquidation. "It's like the dancing bear. The wonder is not that it dances badly, the wonder is it dances at all," says Palmieri. But from where many Mutual Benefit policyholders sit, the bear is stumbling badly.

By Leah Nathans Spiro in New York, with Joseph Weber in Philadelphia

MARKETS & INVESTMENTS

WALL STREET'S WINDFALL IN 'WRAPS'

The accounts have attracted \$40 billion—and counting

Wall Street thrives on marketing new financial products. And the hottest one now is the "wrap" account. What's being wrapped into a package for individual investors is financial planning, investment management, and brokerage commissions. With investors shoveling billions into these accounts, wraps promise not only to make a bundle for brokerage firms but also to change the way the Street deals with customers.

Brokerages have already amassed an estimated \$40 billion in wrap accounts, the bulk of it in the past 18 months. Shearson Lehman Brothers Inc., with some \$15 billion in 107,000 accounts, has new money coming in at a rate of \$400 million a month. Money is pouring into Merrill Lynch & Co. at the same clip. Richard Schilffarth, a brokerage-industry consultant, forecasts that wrap-type

programs will command a cool \$3 trillion in assets by the year 2000. That's roughly twice the amount of assets in mutual funds today. Even if he is half right, wraps will be the greatest success story in financial history.

To open a wrap account, an investor needs at least \$100,000. Working with the customer, the broker develops a financial plan, helps the customer select the right money manager—usually from outside the firm—to implement it, and then monitors the manager's performance. For this service, the investor pays a 3% annual fee on the value of the account. That fee "wraps" all costs for the service, including all commissions for buying and selling stocks and bonds.

What's critical in selling the wrap idea to a customer and making it work is identifying the customer's tolerance for

taking risks and then matching that with a money manager whose investment style falls in the same risk category. The process should lessen the chance that investors will find themselves in unsuitable investments. And by enlisting money managers from outside the firm, the brokers assure customers that they are searching for the best possible fit.

Still, the 3% fee might sound high. Indeed, for the client to best the Standard & Poor's 500-stock index, his money manager would have to earn, on average, at least 3 percentage points a year better than the market. That was no sweat for many managers in 1991, but it's proving difficult this year (table, page 68). And over long periods of time, it's almost unheard-of.

BETTER BOND. Whether the wrap investor ends up beating the market remains to be seen. But what is already clear is that the wrap setup puts brokers and clients "on the same side of the table." Paying brokers an asset-based fee instead of a trading-based commission does away with the temptation to trade merely for the purpose of generating commissions. And because excessive trading, or "churning," is one of the major sources of customer suits against brokerage firms, the growth of these wrap accounts could possibly improve

Wall Street's image with the public.

Only a minority of brokers, perhaps less than 20%, have enrolled clients in wrap programs. Some brokers don't have enough clients who can meet the \$100,000 minimum. Others are wary of "sharing" their best customers with the firm and an outside money manager. Still, those who embrace wraps say they free up time, and improve investment results. Says one brokerage executive: "A good broker is not necessarily a good portfolio manager."

Wraps are already proving to be a rich lode for brokerage firms. This year, wraps could produce more than \$1 billion in gross revenues. That's not a lot considering that full-service brokerages grossed \$27.8 billion last year, but all agree that wrap programs are still in their infancy. More important, perhaps, is that unlike commission income, which is highly volatile, fee-based wrap revenues are fairly predictable.

ELITE CORPS. Brokerage firms aren't the only ones enjoying the wraps bounty. It has been a bonanza for the money-management firms selected for the wrap programs, bringing business they otherwise would never get. There are some 17,000 registered investment advisers, but most wrap programs offer only several dozen. Wrap-program executives say that's because relatively few meet both performance standards and have the organization in place to run large numbers of individual accounts. Rittenhouse Capital Management Inc. in Radnor, Pa., is one of the champs of wrap, having taken in \$2.3 billion through referrals from seven brokerage firms. Regent Investor Services Inc. in White Plains, N.Y., has nearly \$1 billion in wrap assets, and Roger Engemann & Associates in Pasadena, Calif., has \$750 million.

In return for managing the investments, the money manager gets 0.5 to 1 of the 3 percentage points that the brokerage firm charges. Part of what's left goes to the account executive who enrolls the client and services the account. The brokerage firm gets the rest for

trading, custodial, and portfolio-monitoring expenses—and, of course, a profit.

On the surface, wrap accounts may look like mutual funds, and many wrap managers, such as Avatar Associates, Nicholas-Applegate Capital Management, and Roger Engemann & Asso-

say in their accounts, too. Those who don't want tobacco or gambling stocks, for instance, can say so, and clients can also direct money managers to take gains or losses on individual securities for tax-planning purposes.

Wraps differ from funds in other ways, too. The law is specific on how mutual funds keep their books and report their results to investors. Not so with separately managed accounts. The Association for Investment Management & Research has a standard for calculating portfolio performance, but it hasn't been universally adopted. With wraps, a client is dependent on the brokerage firm to monitor performance.

GRAY AREA. Not surprisingly, the rise of wraps has also caught the attention of regulators. Marianne K. Smythe, director of the Securities & Exchange Commission's Investment Management Div., says her staff has been looking at wrap accounts "in a low-key way for about a year." She declined to cite any outright violations of the law. State securities regulators are struggling to draft uniform disclosure rules for wrap accounts, and this fall, a proposal is expected to be presented to a national group of state securities regulators.

The rap on wrap from its critics is that the 3% fee is high compared with alternative forms of managed investment, mainly mutual funds. The average expense ratio for an equity mutual fund in BUSINESS WEEK's Mutual Fund Scoreboard is 1.29%. But that doesn't include brokerage commissions, an estimated 0.34 percentage points, which are paid out of fund assets. Mutual funds sold by brokers have up-front sales loads and/or ongoing "12(b)-1," or distribution, charges, all of which tend to raise the expense of owning funds.

For some, the all-in-one fee may be a smart choice. Investors who trade frequently with a full-service broker can easily run up commission expenses at least as high, if not higher, than the wrap charge. "If you trade like I do, a wrap makes a lot of sense," says money manager Louis Navellier, who manages

'WRAP' ACCOUNTS TAKE HOLD ON WALL STREET...

Firm	Assets Billions	Number of accounts
SHEARSON LEHMAN	\$15.0	107,000
MERRILL LYNCH	9.0	53,000
PRUDENTIAL SECURITIES	4.4	21,500
PAINWEBBER	3.5	14,060
DEAN WITTER	2.7	13,000
SMITH BARNEY	1.8	2,300

DATA: BW

...WHILE SOME 'WRAP' MANAGERS POST SNAPPY RETURNS

These investment returns were reported by some money managers that handle wrap accounts. They are composites of equity accounts, calculated before fees are deducted

Money manager	Annual rate of return		
	1990	1991	1992*
AVATAR ASSOCIATES	-12.7%	43.0%	-0.6%
ROGER ENGEMANN & ASSOCIATES	-4.1	54.7	-1.9
NAVILLIER & ASSOCIATES	12.8	76.3	-1.9
NICHOLAS-APPLEGATE CAPITAL MGT.	0.7	57.8	-2.6
NWQ INVESTMENT MANAGEMENT	-0.5	24.6	-1.5
PROVIDENT INVESTMENT COUNSEL	6.9	66.9	-6.0
REGENT INVESTOR SERVICES	-3.6	31.0	-0.4
RITTENHOUSE CAPITAL MANAGEMENT	2.4	34.3	-5.1
STANDARD & POOR'S 500	-3.1	30.5	-2.5
DOW JONES INDUSTRIAL AVERAGE	-0.6	24.2	2.8
NASDAQ COMPOSITE	-16.4	59.3	3.4

*First quarter

DATA: HAMILTON & CO.

ciates, also run mutual funds. But in buying a mutual fund, an investor gets shares in a portfolio of securities. In a wrap account, a portfolio is created for each investor. Investors get monthly reports and a confirmation statement every time a stock is bought or sold—just as they would with a conventional brokerage account. Investors have some

wrap accounts. Last year, his accounts had 200% turnover, meaning a \$100,000 portfolio generated \$200,000 in trades during the year.

Although fees may be high on minimum accounts, costs usually drop by half a percentage point for every \$500,000 in an account. But these fees, like most commissions, are negotiable. Says J. Arthur Urciuoli, a Merrill Lynch senior vice-president: "We permit consultants to do some discounting based

on their relationship with the client."

In fact, the competition for wrap accounts is so keen that investors can often get a break on the fee just for the asking. Neil Johnson, a managing director of investment consultant Hamilton & Co., thinks there's plenty of room for wrap fees to come down. Says Johnson: "For the services involved, the cost should really be no more than 1.5%."

As the differential in costs between wrap accounts and mutual funds nar-

rows, individuals will turn more and more to wraps. Russ Prince, president of Renaissance Applied Research, a Carmel (Ind.) market researcher, says surveys of high-net-worth individuals show they weigh reputation, confidentiality, and services far more than investment performance or fees. That goes a long way toward explaining why wrap accounts are taking Wall Street by storm.

By Jeffrey M. Laderman in New York, with Stan Crock in Washington

CORPORATE FINANCE

THE RUSH TO LOAD UP ON LONG-TERM DEBT

Big companies are betting that interest rates are near bottom

For corporate financial executives, the recent decline in interest rates has been a mixed blessing. Sure, the rates for their short-term notes and commercial paper have been cut to the bone. But long- and medium-term bonds have given ground grudgingly, causing the "yield curve"—the spread between long and short rates—to widen tremendously, to more than 4 percentage points between three-month Treasury bills and 10-year Treasury bonds. But if you think companies are shying away from long- and medium-term bonds, in favor of shorter maturities, guess again.

Dozens of major companies, from American Telephone & Telegraph Co. to Vestinghouse Electric Corp., are coming to the credit markets with long- and medium-term as well as short-term issues, despite the steepness of the yield curve (table). Corporations are, in effect, betting with their balance sheets that interest rates are bottoming out across the spectrum. "Last week there was \$10 billion in corporate financing—that's more than we used to see all year not too long ago," marvels Edward Z. Emmer, executive managing director for corporate finance at Standard & Poor's Corp.

The hot-and-heavy activity in the credit arena contrasts with the equity markets. The once sizzling market for initial public offerings and secondary stock offerings, which was propelled by the bull market in 1991, has subsided as stocks have seesawed in recent months. But the bond market is exploding as rates have declined across the board. The biggest declines have come in the shortest maturities, with three-month Treasury bills yielding 3.3% and similarly short-term commercial paper fetching 3.4%. Meanwhile, 30-year Treasury bonds are now yielding 7.7%. By contrast, a year ago

three-month bills yielded 5.7% and 30-year bonds yielded 8.5%.

Even though longer-term rates have come down less than a percentage point, the market has seen a flood of fixed-income offerings with durations of a decade and more. The issuers include a cross-section of major industrial companies, in addition to the banks, insurance companies, and financial subsidiaries that traditionally dominate the capital markets. "Rates are historically attractive," observes Jack M. Greenberg, chief financial officer of McDonald's Corp., which recently issued \$150 million in 10-year notes yielding 7 3/8%.

RIGHT PRICE. Like many other companies, McDonald's is going to the debt market to replenish its corporate coffers because the price is right—or as the prospectuses say, for "general corporate purposes." In McDonald's case, the company's strong cash flow has been stretched thin by

ferocious expansion internationally. But a more common rationale among bond issuers has been to retire existing debt. That, along with "general corporate purposes," was the motivation for one of the largest such recent issues, from AT&T. On July 15, it issued \$500 million in debentures at a rate of 8 1/8%, maturing in 2024—32 years in the future.

AT&T's foray into long-term borrowing is an illustration of how declining short-term rates can sometimes make it smart for companies to issue long-term debt. Much of its \$500 million issue will be used to redeem \$188 million in 25-year notes that were sold in 1972. Those notes were paying just 7 3/4%—3/8 of a percentage point less than the 8 1/8% debentures that replaced them.

Why pay 8 1/8% to replace debt that had paid 7 3/4%? For AT&T, the issues involved were not so simple. The first question the company had to answer was whether to redeem the bonds at all—"an entirely separate issue from what to replace them with," notes Peter Sperling, AT&T's director of corporate finance. Since those 1972 notes had five years to run, and comparable five-year notes could now be sold with a yield of

6 3/4%, it made sense to redeem the notes.

But Sperling says that issuing five-year notes would run afoul of AT&T's wish to lengthen the maturities of its debt, and the company felt that 8 1/8% is cheap for a 32-year loan. "Industrial companies can't match the life of their assets and the life of their liabilities as precisely as financial companies, but we try," notes Sperling. And with long-term debt clogging the market, long rates will have to remain high to attract investors—and the yield curve will remain as steep as the Matterhorn.

By Gary Weiss in New York, with Lois Therrien in Chicago

HOW SOME COMPANIES ARE LOCKING IN LOWER RATES

Company	Amount Millions	Rate	Term Years
AT&T	\$500	8 1/8%	32
BELL TELEPHONE Penn.	150	7 3/4%	15
WESTINGHOUSE ELECTRIC	350	8 1/4%	10
MCDONALD'S	150	7 3/8%	10
SHELL OIL	250	6 3/4%	7
DILLARD DEPT. STORES	100	7 3/4%	7
WASTE MANAGEMENT	250	6 1/4%	5
MASCO	200	6 1/4%	5
PEPSICO	200	5%	5

DATA: STANDARD & POOR'S CORP.; BW

Despite the enormous spread between short- and long-term rates, corporations are issuing billions in bonds

BY GENE G. MARCIAL

HEXCEL'S 'HONEYCOMB' LOOKS SWEET

On the Street, one investor's poison is often another's meat. That's how investment manager Bob Gintel feels about his recent purchase of 260,000 shares, or nearly 8%, of Hexcel, one of the world's major producers of "honeycomb" materials, used largely in aircraft and trains.

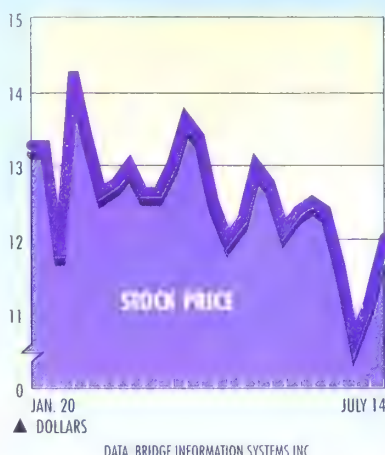
Gintel, president of the high-ranked Gintel Funds, purchased the big block of shares from an investor group that acquired them in late 1990, when Hexcel had sunk to a low of 9 a share. The once high-flying stock had hit 35 the year before. At that point, the group figured Hexcel was an attractive takeover bet. But after two frustrating years of waiting, the group finally bailed out in late June and sold the stake to Gintel, at 11 a share.

Gintel is convinced that Hexcel is more undervalued now—with or without a takeover. Trading on the Big Board at 11½, Hexcel is way below its book value of 19 and sells at a modest price-earnings ratio of 10, based on Gintel's estimated 1992 earnings of \$1.05 a share. And based on next year's \$1.40 estimate, the stock carries a p-e of 8. Gintel expects the stock to sell in the low 20s over the next 12 to 18 months. "Earnings are in a long-term uptrend again," says Gintel, who is forecasting a net of \$2 a share in 1994—not including money that Hexcel expects from some projects ahead.

TUNNEL VISION. Right now, some 45% of Hexcel's sales come from the aerospace industry, which is in a slump as a result of defense cutbacks. Both Boeing and France's Airbus Industrie are major customers. The honeycomb is produced from a combination of aluminum, fiberglass, carbon, and thermoplastic, and the product's high strength and light weight make it ideal for use in airplanes and missiles.

Cecil Godman, Gintel Funds' director of investments, says Hexcel is actively developing commercial markets for its products in order to lessen the company's dependence on aerospace. In particular, honeycombs are being used in the construction of the Channel Tunnel between Britain and France, which Godman thinks could bring in earnings of 50¢ a share this year or next, depending on the project's progress.

IS HEXCEL OUT OF ITS SINKING SPELL?



One moneymaker that has gotten little publicity is Hexcel's tie-up with Reebok International, which uses Hexcel's honeycomb in the sole and arch support of some of its shoes. Last year, Reebok accounted for \$10 million of Hexcel's \$387 million in revenues. Godman sees that figure rising to \$18 million this year. He also notes that Hexcel is talking to the major auto makers about using honeycomb in some car models.

WHAT CAP CITIES SEES IN RENTRAK

Skeptics who think the home videocassette-rental business is facing tough times may want to see what's showing at Rentrak: continued sales growth. Revenues at the company, which leases (rather than buys) films from studios, then leases them to some 2,000 stores, have climbed from \$11 million in fiscal 1989 to \$47.4 million in the year ended Mar. 31. In 1993, Rentrak sees sales of \$60 million.

That may prove low if Rentrak's deal with Capital Cities/ABC comes to fruition soon. Cap Cities is testing a proprietary "data capture and communications" system to keep track of film inventory and rentals at bigger outlets, including supermarkets and department stores. The Cap Cities system will improve Rentrak's current leasing operations, which enable stores to have more films than they could if they had to buy the films at \$45 to \$50 each. With Rentrak, they pay an \$8 fee per video, of which \$6 goes to the studio.

What investors may find especially interesting is Rentrak's growing link

with Cap Cities, which will initially buy 2% of Rentrak's stock at 7 a share. Rentrak will also issue warrants for Cap Cities to buy another 2% at 9½ apiece. Rentrak will eventually be obligated to issue warrants, at prevailing market prices, for Cap Cities to buy as much 40% of Rentrak's stock.

After hitting 10 a share last year, Rentrak has fallen to 6. The company lost \$232,000, or 3¢ a share, in fiscal 1992. But Chairman Ron Berger expects Rentrak to be back in the black in fiscal 1993. One analyst predicts fiscal 1993 net of 20¢ to 25¢ a share and thinks the stock is worth at least 10.

A DRUG STOCK FOR SKEPTICS

With the market turned off by drug and biotech stocks, why are some pros buying Belmac, a small pharmaceutical company? True, Belmac's stock has slid from 20 in January to 11, but there's more to the buying than just bottom-fishing.

Whispers are that Belmac is in talks with two major drug companies about selling a 20% stake in return for a cash infusion and marketing clout. Some pros believe that the big companies are keen on Biolid, a Belmac antibiotic that is already marketed in France and is undergoing last-stage clinical trials in the U.S. Belmac hopes to file a new-drug application for Biolid this year and expects Food & Drug Administration approval by mid-1994.

Biolid is an erythromycin derivative of the class of antibiotics that accounts for some 15% of all antibiotic prescriptions. Analyst Deborah Dzierzeski Wardwell of Dain Bosworth calls it Belmac's "propeller of earnings growth." Biolid is designed for twice-a-day treatment of upper and lower respiratory-tract infections, skin ailments, and urogenital diseases. Belmac is said to be working on a once-a-day dosage. Major drug companies, including Abbott Laboratories and Warner-Lambert, make their own brands of this type of antibiotic.

Wardwell explains that Biolid is "more efficacious than erythromycin at lower dosages." She predicts that in five years, Biolid will produce sales of \$375 million. Wardwell sees Belmac making money for the first time next year, with earnings of \$8 million, or 40¢ a share, vs. an expected \$6.4 million loss, or 65¢ a share, in the year that ended June 30. Her 12-month target for Belmac: \$32 a share.



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OTTO OBERMAIER IS NO RUDY GIULIANI

Fewer splashy indictments, but applause for his restrained style

When Rudolph W. Giuliani was U. S. Attorney in the Southern District of New York, it seemed as if every week somebody was getting indicted. In packed press conferences, the politically ambitious prosecutor unveiled sweeping indictments of mob leaders, local politicians, and the pillars of Wall Street, including the jailed junk-bond whiz Michael Milken.

In May, Giuliani's mild-mannered successor, Otto G. Obermaier, held a rare press conference to announce the resolution of his biggest case to date: the probe of Salomon Inc. for admittedly manipulating the government securities market. But instead of announcing an indictment, Obermaier said the \$290 million in civil fines was adequate. "There was no need to punish innocent employees and shareholders," he said.

LESS SWASHBUCKLING. Otto Obermaier is no Rudy Giuliani—but whether that's bad or good depends on whom you ask. Everyone praised Obermaier's decision on Salomon. And since taking over the country's most prestigious federal prosecutor's office nearly three years ago, he has impressed subordinates, judges, and former colleagues with his professional, reflective approach to law enforcement. That's a refreshing contrast, they say, to the swashbuckling Giuliani, who had some of his high-profile convictions reversed on appeal. "When assistant prosecutors come in, it's presumed that they're giving you the straight poop," says Kevin Duffy, a federal judge in Manhattan and Obermaier's former supervisor at the Securities & Exchange Commission. "I didn't have the same confidence I do now."

Yet Obermaier's restraint is triggering concern that the office has swung too far the other way. Not enough big cases are being made, say some law enforcement officials, defense lawyers, and Giuliani partisans, and those that

are get little if any notice. The Manhattan office is being eclipsed by its Brooklyn rival, the U. S. Attorney's office for the Eastern District of New York, with its celebrated prosecution of mob boss John Gotti and increasing numbers of visible business and securities cases. One explanation: Obermaier may be less successful in nurturing crucial relations with such government agencies as the



FBI. But Obermaier and some top aides say relations have never been better.

Is Obermaier aggressive enough? "I play the hands I'm dealt," says the prosecutor. His critics say that's the trouble. While Giuliani worked with federal agencies to develop cases, often initiating probes, Obermaier waits for the agencies to come to him. "They're the professionals," he says. "I merely run an organization that provides the legal backup for them." Obermaier says that he cares more about improving the ad-

ministration of the nearly 200-lawyer shop than he does about making a prosecutorial splash. "It is not my intent to just do big cases," he says, noting that had Salomon gotten indicted, it would have generated endless stories around the world. "We try and do what's right."

LEGAL SNUB. For Obermaier, doing right means making "a safer New York." Obermaier has shifted the office away from glitzy Wall Street probes in favor of narcotics and weapons cases—a national law-enforcement priority. Drug cases now make up 41.5% of the office's docket, but they rarely draw significant press attention, he notes.

Obermaier may be oblivious to his public image, but he's conscious of how he appears as a lawyer. During the Salomon negotiations, he declined to sit at the same dinner table with the firm's lead defense lawyer, Ronald L. Olson,

THE ROAD TO U.S. ATTORNEY

1957-63 Otto Obermaier graduates from Manhattan College. Attends Georgetown University's law school at night while working as a patent examiner in the U.S. Patent & Trademark Office. Goes to work as a law clerk for a federal judge

1964-70 Works as a young prosecutor in the office of the U.S. Attorney for the Southern District of New York in Manhattan. After a few years, becomes chief trial counsel for the Securities & Exchange Commission's New York regional office. Tries some early insider-trading cases

1970-89 Founds own law firm with a few partners. Specializes in defending brokerage firms and corporations. In columns and interviews published in legal newspapers, raises doubts about stretching the criminal law to attack securities-law violations

1989 Succeeds the zealous Rudolph Giuliani as U.S. Attorney. Earns praise for his cautious professionalism, but critics say he hasn't prosecuted enough big cases

DATA BW

while at a legal conference. Olson believes Obermaier feared that someday somebody would raise questions.

The prosecutor is also aware of how his performance may play in Washington. "My suspicion is that this tenure will be reasonably favorably remembered," Obermaier says. Assuming the Democrats don't capture the White House, Obermaier would like to run "his own organization" when his term expires next year. His agency of choice? The Securities & Exchange Commis-

n. "It's a reach," he quickly adds. The American-born son of German immigrants—his father worked in an ice cream factory, his mother was a seamstress—Obermaier graduated from Manhattan College in the Bronx. Armed with an electrical engineering degree, he worked as a patent examiner for the U.S. Patent & Trademark Office in Washington. There he attended Georgetown University's law school at night. In the 1960s, Obermaier was an assistant in the office he now heads and served as chief trial counsel for the SEC's New York office. But he made his name as a defense attorney. He aggressively represented top brokerages fighting securities charges. Law wasn't his sole passion: While building his own firm, Obermaier managed to indulge his interests in tennis, Mozart, fine wine, and translating German, to name a few. But not everyone has walked away satisfied. In 1988, arbitrator John A. Mulheren fired Obermaier after he argued a plea bargain requiring Mulheren admit guilt but letting him avoid jail. On appeals court later threw out Mulheren's securities-fraud conviction.

As U.S. Attorney, Obermaier got off to a slow start. It didn't help that he had publicly questioned using criminal laws to prosecute securities violations. Also, the office was in flux. Experienced prosecutors had left, and morale was "flat," says John K. Carroll, chief of the Securities & Commodities Fraud Task Force.

OWNER PROFILE. Carroll says morale has been better lately. Obermaier's legal skills and wry wit have won over some staffers, and he has been known to bring a bottle of wine to meetings. The office has been busier: In 1991, criminal indictments jumped 9% over 1990 and are now about even with last year. Though he denies it, Obermaier even seems to be reaching out to the public. In the past months, he has called six press conferences, compared with about that number over the prior two years. On July 8, Obermaier announced the indictment of five computer hackers nabbed in the first federal case using wiretaps to intercept computer transmissions.

Are financial markets under control? As a result of the prosecutions of the 1980s, I frankly think that Wall Street is in reasonably good shape," says Obermaier. Still, Wall Street isn't a place he can ignore. "We're probably going to have to strike out into other areas," he says, such as commodities and mutual fund fraud, and insider trading in junk bonds. Those cases won't be as spectacular as Ivan F. Boesky's and Milken's, but if they pan out—and if the office keeps the heat up on other criminals—Obermaier may be remembered for what he has done and not for what he hasn't.

By Michele Galen in New York

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THE KING OF CABLE SCRAMBLES TO SHORE UP HIS FORTRESS

Slow growth, plus irate consumers and lawmakers, has John Malone remaking Tele-Communications

John C. Malone is keeping an even lower profile than usual these days. Never one for the spotlight to begin with, the 51-year-old chief executive of cable TV giant Tele-Communications Inc. is spending the summer with his family in Maine. Linked by phone and fax to his office in Denver, Malone runs the \$4 billion-a-year TCI from a smallish house not far from the ocean. To the outside world, he may as well be invisible.

If only he could make TCI's problems disappear so easily. These are bruising times for America's largest cable company. As with much of the industry, TCI's boom days are over. Its subscriber rolls, which grew at double-digit annual rates in the 1980s, increased an anemic 4.7% in 1991 and are growing even more slowly this year (chart). Widely viewed as a corporate bully for its hard-nosed business tactics, TCI has become a prime target for congressional leaders eager to rein in price hikes and reregulate the \$20 billion cable business. At the same time, the company, which hasn't turned a profit since 1988, is cutting costs while trying to patch up battered relations with some of the cities it serves.

'BEING BIG.' With its strong cash flow, TCI never used to let things like losses bother it much. Scurrying to buy cable systems in the U.S., it doubled its debt, to \$9.9 billion, in the past four years alone. In 1989, it paid \$1.9 billion, including assumed debt, for the cable systems owned by United Artists Entertainment Inc., based in Denver, and \$389 million for the system owned by Washington Redskins owner Jack Kent Cooke. It now serves 16% of U.S. cable subscribers. "Being big has always been crucial to TCI's strategy, and they weren't afraid to spend a lot of money to get there," says Marc B. Nathanson, chairman of rival Falcon Cable Systems Co.

But lately, TCI has switched to a different channel. It is essentially out of the market for cable systems. Instead, it has been pouring money into new technologies that it hopes will become growth engines. With thousands of miles of cable already strung throughout cities and into homes and businesses, TCI is betting that it can increase the

number of services it sells to customers.

Fiber optics are key to the plan: With data-compression technology, which squeezes even more information into the fiber-optic wires, it can offer up to 400 channels and provide a wealth of information, including computer-data transmission, improved TV quality, and even CD-quality music. Already, the company has converted parts of more than a quarter of its existing systems from co-

transmits data and telephone messages for large companies in seven cities. "These guys [at TCI] have always been entrepreneurs, and these days, that means finding new services, not wiring homes," says John Tinker, managing director at broker Furman Selz Inc.

The technology push comes on the heels of an aggressive move into cable programming. Over the past few years, Malone has spent more than \$500 million



CEO MALONE:
REFINANCING
SHOULD HELP TCI
SEE ITS FIRST PROFIT
SINCE 1988

axial cable to fiber optics. Along with American Telephone & Telegraph Co. and U.S. West Inc., TCI is trying viewer-controlled TV in Denver, allowing customers to choose from up to 1,000 different shows on demand. That's just one of several fiber-optics programs TCI is testing around the country.

It even wants to get into the telephone business. The company has a fiber-optics venture with McCaw Cellular Communications Inc., and in February, it paid an estimated \$75 million for 49.9% of Teleport Communications Group, which operates a private fiber-optic network that

buying pieces of programming companies such as Turner Broadcasting System Inc., Discovery Communications, and a handful of others. The money has helped jumpstart the production of shows TCI needed to expand its offerings, while its ownership let it recapture a piece of its \$600 million annual programming costs.

But some Malone programming investments have contributed mightily to the company's bad-boy image. On June 29, the former owner of the Learning Channel sued TCI, alleging that the company unfairly drove down the purchase

ice in their 1991 deal. In the suit, the w bankrupt Financial News Network argues that TCI threatened to drop the earning Channel from many of its systems so that TCI's 49%-controlled Discovery Channel could swoop in and buy it at cut rate. The suit seeks \$26.5 million in damages. TCI declines to comment, except to insist it will prevail in the suit.

IT MUCH SPIN. With stakes in 4 of the nation's 10 largest cable channels, Malone has taken lots of heat from people to feel TCI unfairly dominates the business. Last year, he moved to quell some of the criticism by spinning off most of programming interests into a separate company called Liberty Media Corp., of which TCI holds 5%. Still, the companies are hardly independent of one another. Malone and TCI Chairman Bob Magness own 56% of Liberty and sit on a six-person board along with three other TCI execs. Malone is CEO. Liberty pays some \$2 million in programming a year from TCI and pays an extra \$4 million for accounting and other services.

Congress may repeal the 5% annual rate hike that is allowed for basic cable and permit stricter local controls

Thanks mainly to lower interest rates, says analyst Michael Kupinski of A. G. Edwards & Sons Inc., TCI should earn \$129 million this year, vs. a \$102 million loss in 1991. That has helped its stock move from 17 to around 20 this year. Still, not everyone thinks it will keep going up. Greenwich (Conn.) money manager Frederick A. Moran notes that Malone has cut his own holding in TCI while adding more in Liberty. "He seems to think the upside is greater for programming than cable," says Moran, who has sold his stake in TCI.

What's going on in Washington isn't reassuring, either. The bill to regulate

Magness of "internal self-dealing" through questionable stock transactions. TCI strongly denies any wrongdoing by its officers. Later, legislators were angered when the TCI-backed National Cable Television Assn. sent out pamphlets, stuffed into cable-subscriber bills, that called a piece of the bill a tax on cable users. The NCTA says legislators misinterpreted the ads.

It wasn't the first time TCI called on its customers to help block the legislation. According to city officials in Evansville, Ind., TCI pressured the city council to oppose the bill or see its rates skyrocket. A TCI spokesman says it was only explaining how the legislation might affect subscribers. Eventually, the council, angered by TCI, publicly endorsed the legislation. "For all [TCI's] financial brilliance, you have to wonder how they could be so bad at public relations," says Falcon Cable's Nathanson.

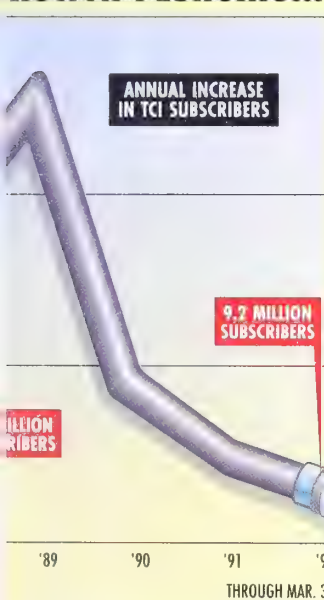
BROKEN STRONG-ARM. TCI's relationships with many of the cities that license it could prove as nettlesome as its image in Washington. In the next five years, 25% of TCI's franchises, representing some 2 million basic subscribers, come up for renewal. Not all of them are happy. After town officials in Morganton, N. C., complained to TCI that it charged too much and offered too few channels, the company last year tried unsuccessfully to get the council voted out of office. Finally, on July 6, the council ended the bruising battle by voting to toss TCI out—literally, by ripping out its cables—in favor of a city-run system.

Some cities have wrung concessions from TCI lately. Jefferson City, Mo., just extended the company's license to provide service for eight years but not before demanding more channels and better repair service. And TCI just settled a long-standing dispute with Gillette, Wyo., over similar problems, agreeing to refund \$500,000 to customers, add channels, and freeze rates for two years.

Hoping to head off a mass exodus, TCI has been trying hard to portray itself as a good corporate citizen. It is considering a nationwide expansion of its ad campaign by Hal Riney & Partners, and it's using new and more frequent marketing studies to gauge the needs of customers. Already, officials in several of its larger cities, such as Chicago and Seattle, report some improvement in service and channel offerings. But it may be too late to mollify everyone. "People are tired of the way TCI has bullied its way across the country for years," contends Morganton Mayor Mel Cohen. If Congress agrees and pushes for reregulation, TCI had better hope its bets on new technology start to pay off quickly.

By Ronald Grover in Los Angeles, with Mark Lewyn in Washington, and Chuck Hawkins in Atlanta

WITH SUBSCRIBER GROWTH PLUNGING...



...TCI IS BROADENING ITS REACH

- Has major stakes, held either directly or through Liberty Media spinoff, in eight programming companies. They include Turner Broadcasting System, Court TV, CBN Family Channel, and American Movie Classics
- Holds 49.9% of Teleport Communications Group, a fiber-optics company
- Test-marketing low-cost cellular phones linked to fiber-optic transmitters (with McCaw Cellular Communications), viewer-controlled TV (with U.S. West and AT&T), data delivery over cable systems (with Digital Equipment), and high-definition video hookups for doctors (with Faroudja Laboratories)
- Joined with U.S. West to operate cable and telephone systems in Europe
- Founded Tempo Enterprises to sell direct-broadcast satellite dishes

For all of Malone's maneuvering, however, few of the new businesses TCI has ded are likely to make much of a contribution before the end of the decade. He has made a few recent moves to shore up TCI's finances. Early this year, sold off its 2,406-screen United Artists theater chain, which had lower margins than cable. Malone, who declined to be interviewed, has also refinanced TCI's huge debt load by courting overseas banks and issuing long-term bonds. That cut its overall interest rate to 8% from 10% over two years and lopped off nearly \$400,000 a day in interest payments.

cable, now moving toward compromise on Capitol Hill, is filled with restrictions that could wreak havoc on TCI's income statement. The federally permitted 5% annual rate hike for basic services would be repealed, allowing stricter controls by local governments. Cable companies could also be charged for programs they now carry for free, including those offered by the Big Three networks.

TCI hasn't had an easy time of it at the congressional debates. The week the Senate began hearings in January, legislators read a front-page *Wall Street Journal* story accusing Malone and

DISCOVERY ZONE: FITNESS FOR THE LATCHKEY SET

Three years ago, Ron Matsch heard about a disturbing trend. According to a gymnastics coach who rented space in Matsch's Kansas City (Mo.) fitness center, many of the kids in beginner-level classes were so out of shape they couldn't even perform the most basic exercises. So Matsch teamed up with the coach, Al Fong, and opened their own fitness center for kids 12 and under. They called it Discovery Zone.

Kids took to it like chocolate ice cream. They don't so much work out as "play out," clambering up Discovery Zone's vinyl mountains, running through its swinging bridges, and schussing down its spiral slides. Today there are 39 Discovery Zones operating in the U.S. Each indoor playland is about 8,000 to

9,000 square feet. Some 138 franchises have been sold at a cost of around \$35,000 each. Among the buyers: tennis ace Billie Jean King.

To oversee the daily operations of Discovery Zone, Fong and Matsch hired retailing veteran Jack V. Gunion as CEO. Gunion, 48, pegs total 1991 revenues of Discovery Zone at \$5.4 million. He says the chain, which charges \$5 to \$7 per child for a two-hour visit, will turn a profit this year. What



MATSCH AND GUNION AT WORK

makes the centers such a hit? Says Matsch, 37: "We live in a latchkey society where parents are afraid to let their kids outside to play. It's go home, lock the door, and sit in front of the television."

The playland concept has attracted some other companies, including Kidsports International Inc. Last year, McDonald's Corp. began testing indoor playgrounds, too. But Gunion says he's not scared of the Golden Arches. McDonald's is "the greatest validator we could have," he says. "We became a real business overnight."

By Monica Roman in New York

LIFETIME HOAN: HOW A KNIFEMAKER STAYS ON THE CUTTING EDGE

Milton L. Cohen, who has been selling knives for nearly four decades, has spent the past few years cutting deals. As chairman of Lifetime Hoan Corp., a maker of cutlery, kitchen tools, and gadgets, he joined with Bear, Stearns & Co. to buy Lifetime in a 1984 leveraged buyout. Four years later, he bought out Bear Stearns's take. And last year, he took the Brooklyn-based company public.

Cohen, 62, isn't about to slow down. His growth strategy: licensing. To compete against such sharp competitors as Imperial Schrader, Ekco Group, and Chicago Cutlery, he figures it's essential to have big, recognizable brand names. So in the past

couple of years, Lifetime Hoan has lined up licensing deals with Walt Disney, housewares giant Farberware, and Pillsbury. For Disney, Lifetime Hoan makes products such as Mickey Picture Toast, a plastic gadget that imprints the famous mouse's mug on pieces of toast. For Farberware, it manufactures pricey knife sets sold in department stores. And it will develop and market a line of

bakeware products featuring the Pillsbury Doughboy. Products in that line will be shipped to retailers in the fall.

Since most competing houseware products look and work the same, a brand name can make for a real marketing edge. Sales at Lifetime Hoan last year were \$54.8 million, a gain of 13.1% over 1990. Profit climbed 21.6%, to \$4.9 million. The Farberware license alone brought in revenues of \$5.7 million last year. Even in the sluggish retail economy, "we have never experienced any kind of recession," gloats Cohen. The company's recent record landed it in the No. 90 slot on BUSINESS WEEK's 1992 list of Hot Growth companies (BW—May 25).

Now, Cohen says he would like to make some more deals. He might even make an acquisition in the housewares industry, given the right opportunity. Lifetime Hoan could probably afford something pretty flashy: Last year's public offering sliced long-term debt down to zero.

By Nicole Harris in Brooklyn



COHEN IS ON A LICENSING SPREE

TRENDS

WHAT THE BOSS MAKES AT THE UP-AND-COMERS

Everyone knows CEO salaries at big companies have skyrocketed in the past few years. But what about smaller enterprises? A new survey of 235 small and midsize companies, most with annual sales of \$2 million to \$50 million, sheds some light on the boss's paycheck:

Approximate annual compensation*	Respondents (percent)
\$100,000 or less	40%
200,000	39
300,000	9
400,000	6
500,000	3
900,000	1
1,000,000 or more	1
No answer	1

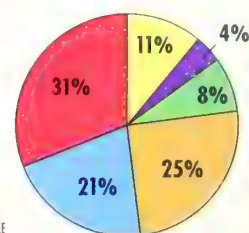
Slightly more than half of the CEOs responding to the survey said they got raises in the past year. For those who did, here's the breakdown:

PERCENT INCREASE IN COMPENSATION

More than 50	15-24	10-14
35-49	25-34	Less than 10

*SALARY AND BONUS

DATA: THE EXECUTIVE COMMITTEE





WHIPPLE AND INVESTOR CARTER: 340 ACRES, A LOCOMOTIVE, AND A CABOOSE

THE LITTLE ENGINEERS THAT COULD

Short-line operators are profiting where the big railroads couldn't

Brian R. R. Whipple can't say exactly why, but as a teen, he fell in love with railroads. In college, he was an intern with Southern Pacific Railway, became a research analyst there after graduation, and spent the next two decades in various jobs in the industry. Whipple's loftiest ambition, he says, was to become a division superintendent or vice-president. He never dreamed of being a railroad owner—but he is today.

Whipple, 52, is president of the Santa Fe Southern Railroad. But he isn't puffing cigars or consulting a pocket watch. Most days, you can find Whipple in cruffy jeans and boots, fixing engines or inspecting a portion of his tiny railroad's 18-mile stretch of track. He gets paid \$1,500 a month for a 70-hour week—and loves it. **MAJOR PROFIT.** Whipple (who admits his middle initials stand for Randolph Rogers, not railroad) is a short-line entrepreneur, one of scores of former railroad employees who are buying unprofitable railroad branch lines and turning them around. The Staggers Rail Act of 1980 provided the impetus for that, but only in the past few years has the rebirth of

short lines picked up steam. The law deregulated railroads, making it easier for them to get rid of unprofitable lines. In 1980, 200 independent feeder lines existed. Since then, some 300 have been formed, and railroaders expect that number to double in the next decade.

The new short-line owners find they can turn a profit where the big railroads couldn't. Atchison, Topeka & Santa Fe Railway Co. lost \$100,000 or more annu-

erages just 60 miles in length, but the 500 nationwide comprise a hefty 26% of all track in the U.S. (table). They play a crucial role by servicing shippers too small for the big railroads to worry about and feeding those customers' goods into the bigger lines. Now, some small shippers who had defected to trucking companies in the early '80s for lack of service are being wooed back by the smaller lines. The big railroads "are the arteries and veins," says Whipple. "We're the capillaries."

FEW FAILURES. Their big advantage is lower costs. Because short lines don't have to hire union workers, they can cut wages and run smaller crews. Overhead is often lower, too. For six months, Santa Fe Southern's headquarters were housed in the offices of architect Neil A. Carter, the railroad's vice-president.

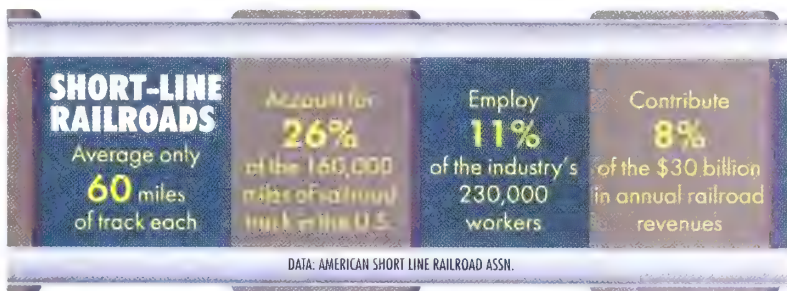
There are drawbacks. Short lines often depend on a single shipper for business. Sales at RailTex' San Diego & Imperial Valley took a dive when a Mexican cement company that contributed 30% of its business was found guilty of selling below cost in the U.S. and had to stop shipping. High maintenance costs to repair track that main-line owners had let go to seed can cause problems. Then there are natural disasters: Eureka Southern in California, an earlier Whipple endeavor formed in 1984, was knocked out of business two years later after a flood took out 100 miles of track.

Still, failures are few, since feeders can not only cut costs but also can provide a level of service shippers never had before. The feeders have clout with megacarriers, so they can get scarce railcars and win for shippers lower rates for main-line service than shippers could negotiate themselves. Short lines go far

to please customers. Louisiana & Delta spent roughly \$200,000 rebuilding a spur line to a customer's pipe-coating plant in 1989. As a result, the plant shipped 1,708 railcars last year, up from 281 in 1987.

Some of the short lines also are tapping into a nostalgia for old-fashioned passenger trains. Whipple's group will supplement freight revenues by taking tourists for rides in the caboose and a Pullman car. In late July, it will begin hauling passengers on a "hobo tour" from Santa Fe to Lamy and back. The job may never make Whipple wealthy, but it's more fun than being division superintendent.

By Sandra D. Atchison in Santa Fe, N.M.



ally on the 112-year-old line that runs from Lamy, N.M., to Santa Fe. So in March, it sold the line, with 340 acres of land, a locomotive, and a caboose to Whipple and five investors for \$276,000. Whipple's group—which dubbed the line Santa Fe Southern—expects to make a small profit on revenues of \$180,000 in its first year of operation.

Short lines like it may be small, but they're hardly humble: A single line av-

REGENERON HAS RESEARCH ON THE BRAIN

It's nurturing top neuroscientists and betting they'll roll over rivals

Even by the standards of the biotech industry, Regeneron Pharmaceuticals Inc. is on a particularly daunting quest. It is one of a handful of companies focusing on the body's most complex mechanism, the brain. And it is pursuing treatments for deadly diseases without assurance that ways will be found to escort these drugs through the blood-brain barrier that protects the organ. It might hardly seem worth the effort but for the chance to find miracle cures and someday capture markets worth billions. And except for this: Dr. Leonard S. Schleifer, a neurologist and Regeneron's 40-year-old founder, has a plan to last the long haul.

Schleifer's strategy is to overwhelm the competition with scientific talent, including the three Nobel laureates on Regeneron's 14-member advisory board that helps set research priorities. By the mid-1990s, he plans to have produced drugs based on nerve growth factors—or natural proteins—that treat the least complicated neurological diseases. After the year 2000, his goals are much bigger: nerve growth drugs for scourges such as Alzheimer's and Parkinson's disease. For the funding all this will require, Schleifer is counting on his 150 scientists to make unforeseen breakthroughs and on income from research contracts.

POWERFUL PARTNER. It's a plan fraught with scientific and market challenges. In May, four years after its founding, Regeneron received Food & Drug Administration permission to do human trials of a nerve growth factor called ciliary neurotrophic factor, or CNTF, to treat amyotrophic lateral sclerosis (ALS). Known as Lou Gehrig's disease, this is a debilitating, ultimately fatal, motor-neuron ailment that afflicts 30,000 people in the U.S. Stuart Weisbrod, a biotech analyst at Merrill Lynch & Co., says CNTF's do-

mestic market could be \$450 million.

This may be a hard prize to win, however. A joint venture of Synergen Inc. in Boulder, Colo., and Syntex Corp. in Palo Alto, Calif., is in close pursuit with its own human trials of CNTF, and it holds a



"A NIRVANA OF SCIENCE": SCHLEIFER, YANCOPOULOS

key patent on the drug. The FDA has already given CNTF orphan-drug status, a monopoly granted as an incentive to develop medicines for rare diseases. That means the first company to win FDA approval will have an exclusive right for seven years to sell CNTF for treating ALS. Weisbrod calls the drug "the most competitive of the newer biotech products."

Beyond that lies a major scientific hurdle. Regeneron's first drugs, including CNTF, work on the peripheral nervous system and thus can be injected under the skin. "We can deliver on our busi-

ness plan for five years and beyond without a technology that breaches the blood-brain barrier," says Schleifer. But after that, the equation will change. Nerve growth factors are large proteins that currently can't reach the brain except through a shunt—or tube—inserted into a patient's head. Experts say it may take a Nobel-prize breakthrough to come up with a more practical delivery system. And it isn't clear when that will be. Biotech startups such as Alza, Alkermes, and Pharmatec are working on a variety of approaches, which may not be ready for 5 to 10 years.

Nerve growth factors are the product of a decade of research on the molecular workings of the brain. Existing therapies relieve brain-illness symptoms but don't treat the causes. Levo-dopa, a longtime treatment for Parkinson's, helps sufferers by "simply replacing missing chemicals," says Ronald M. Lindsay, vice-president for neurobiology at Regeneron.

And its effectiveness declines as the disease progresses. By contrast, Regeneron is targeting the underlying cause of the disease, which is that nerve cells, or neurons, degenerate and die instead of replenishing themselves as other cells do.

STUMBLING BLOCK. That's where neurotrophic factors come in. In a healthy brain, these proteins constantly promote nerve-cell survival. They also do very specific jobs. CNTF affects only motor neurons, making it good

for Lou Gehrig's disease. Another product Regeneron is readying for the mid-1990s, called brain-derived neurotrophic factor, or BDNF, appears to work on the neurons that die in Alzheimer's and Parkinson's, ailments that afflict 6 million people in the U.S. Until the blood-brain barrier can be breached, Regeneron is aiming BDNF at nerve damage caused by AIDS and diabetes, among other diseases. Industry leader Amgen Inc., based in Thousand Oaks, Calif., is contributing \$53 million and the work of 30 scientists to help perfect this and another drug.

Regeneron attracts such partners because of its research team. It claims one

REGENERON'S WILD RIDE



DATA: BRIDGE INFORMATION SYSTEMS INC.

the largest combined groups of molecular biologists and neurobiologists in the world, many drawn by a degree of freedom that's rare at drugmakers. Three years ago, George D. Yancopoulos, then 28, graduated from Columbia University with an M.D. and a PhD in molecular immunology—and one of the school's highest grade averages in 40 years. Sought by such top research universities as Stanford, Columbia, and UCLA, Yancopoulos instead hired on as vice-president for discovery at Regeneron in Tarrytown, N.Y.

The company not only promised generous funds for his research, it agreed to let him publish his findings, a combination that he says makes it "a nirvana of science." This approach may give competitors a lift, but Schleifer is wedded to it anyway. Otherwise, "you cannot attract first-rate scientists," he says. "This is the reward system for them."

CRITICAL MASS. Although its emphasis is still research, Regeneron is revving up for production. Two of its advisory board members helped Merck & Co. commercialize Mevacor, the cholesterol-lowering drug. And Regeneron has a new \$4 million factory. It makes CNTF by inserting a gene for the nerve-healing protein into bacteria, which manufacture the drug. Regeneron is using varying dosages of CNTF in its trials on ALS patients, while Synergen and Syntex, in a less sweeping approach, use a single dosage. Analysts are betting on Regeneron to get through the FDA first: "It is such a critical mass of scientists that it looks likely to win," enthuses Larry Loom, an analyst at Dillon, Read & Co. New York. It has already petitioned the Patent & Trademark Office to overturn Synergen's patent—on grounds that Regeneron first cloned the gene for CNTF. Synergen says simply that it has the patent and won't comment on its clinical trials.

Even if Regeneron loses this battle, Schleifer says, revenue from research agreements and other products will keep solvent. Reflecting the malaise in biotech stocks, the company's shares have dropped 50% in the 15 months since it went public at \$22 and raised \$99 million in the second-largest biotech public offering. But it has \$100 million in cash, and its losses so far aren't overwhelming—\$4.4 million last year on revenue of \$2.5 million, which came from interest income and research deals with the likes of Amgen and Sumitomo Corp. It's also developing more nerve growth factors with collaborators such as Karolinska Institutet in Sweden and the Max-Planck-Institut in Germany. At the least, this work should lead to new understanding of the brain. At most, it may one day yield life-saving drugs.

By Fleur Templeton in New York

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Washington, D.C.: 72% of WordPerfect users found Microsoft Word for Windows easier to learn.



Portland: 92% of WordPerfect users found Microsoft Word for Windows easier to learn.



Dallas: 88% of WordPerfect users preferred Microsoft Word for Windows over WordPerfect for Windows.



Los Angeles: 72% of WordPerfect users, if given a choice, would buy Microsoft Word for Windows over WordPerfect for Windows.

The 1992 Coast-to

The 1992 Word Challenge is over. And as you can see, the results speak for themselves. WordPerfect[®] for DOS users all over the country prefer Word for Windows[™] for everyday word processing tasks. Over the past two months, the National Software Testing Labs visited 10 different cities to ask WordPerfect users to compare WordPerfect for Windows and

Microsoft[™] Word for Windows side-by-side. WordPerfect users were amazed at how Word put them one step away from accomplishing everyday word processing tasks with, in many instances, one simple click of the mouse. They found it that easy.

The tour was not only fun, but it definitely confirmed two very strong hunches we've had for some time. One, WordPerfect

er Microsoft Word for what state they're in.



Salt Lake City: 76% of WordPerfect users preferred Microsoft Word for Windows over WordPerfect for Windows.



Chicago: 68% of WordPerfect users, if given a choice, would buy Microsoft Word for Windows over WordPerfect for Windows.



St. Louis: 71% of WordPerfect users preferred Microsoft Word for Windows over WordPerfect for Windows.



Minneapolis: 88% of WordPerfect users felt that Microsoft Word for Windows was the easiest to use.



Atlanta: 74% of WordPerfect users felt that Microsoft Word for Windows was the easiest to use.



New York: 80% of WordPerfect users think that Microsoft Word for Windows is easier to use.

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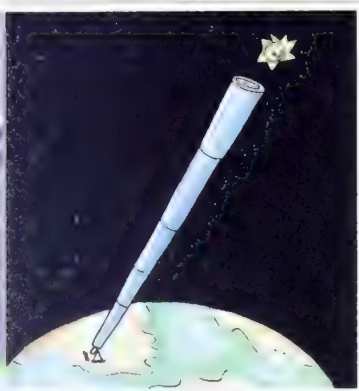
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Developments to Watch

EDITED BY WILLIAM D. MARBACH

ARE THE STARS OUT TONIGHT? HIS TECHNOLOGY CAN TELL



Twinkling stars may inspire poets, but the distortions caused as starlight passes through the atmosphere are a headache for astronomers. Soon, thanks to adaptive-optics technology, scientists may get an unprecedented view of the heavens. Developed so the military could hit missiles with laser weapons, the technology uses computers

and sensors to detect how light is being distorted, then special exible mirrors to compensate for the distortions.

Scientists at Georgia State University and Georgia Institute of Technology are designing an adaptive-optics observatory consisting of seven small telescopes in a Y-shaped array. Besides correcting for atmospheric distortion, computers will combine the seven images to achieve the resolution of a telescope a quarter-mile across. That would enable astronomers to see details 5,000 times smaller than with the best ground-based telescopes—and even 150 times better than the Hubble space telescope was designed to provide. The cost? Roughly \$10 million, or less than 1% of the Hubble's price. Scientists say the observatory could be operating in New Mexico's Sacramento Mountains by late 1995.

IN JAPAN, YET ANOTHER COLD-FUSION MYSTERY

It's budget-drafting time for Japan's government agencies, and this year the process is spiced by a politically charged mystery involving the powerful Ministry of International Trade & Industry. In mid-July, the Japanese press reported that MITI plans a huge five-year research campaign to harness cold fusion, spending tens of millions of dollars. But government officials now say that MITI's Natural Resources & Energy Agency will request less than \$2 million.

Cold fusion grabbed headlines worldwide in 1989, when two University of Utah researchers claimed they could generate fusion energy in a glass jar. Most scientists subsequently dismissed the idea, but some—including Akito Takahashi, a physicist at Osaka University—have stubbornly kept at it (ENR—Mar. 2). Insiders in Japan's cold-fusion clique insist that reports of a major program are accurate. They say the natural resources division is downplaying the plan to avoid a fight with the MITI arm that ordinarily manages nuclear research.

SUPERCONDUCTORS THAT CAN KEEP THE JUICE FLOWING

When a momentary sag in electric power causes the lights to dim, most people hardly notice. But tiny power glitches can cause thousands of dollars in equipment damage and lost production for companies involved in such delicate processes as making semiconductors or synthetic fiber. Now, Superconductivity Inc., a small company in Madison, Wis., has

a way to use superconductors to bridge the gap when the power wanes.

Developed with the help of Richard A. Lundy, a former top researcher at Fermi National Accelerator Laboratory in Illinois who is SI's chief technical officer, the company's Superconducting Storage Device consists of an 18-inch magnet coil submerged in liquid helium at a temperature of -452F. Because superconductors eliminate resistance to electrical current, the device can store large amounts of energy indefinitely. It can kick in in less than 2 milliseconds, allowing critical manufacturing processes to ride through outages as short as 100 milliseconds.

The large-capacity devices cost \$900,000 to \$1.9 million. Early sales include an SSD being used at an IBM semiconductor plant in Fishkill, N.Y. According to SI, power companies in Brazil and France also have shown interest.

SOFTWARE THAT SPOTS BREAST CANCER EARLY

If women heed the American Cancer Society's recommendation to have a mammogram before age 40, and frequently thereafter, to look for early signs of breast cancer, there will be a sharp rise in the number of tests performed. Already, there's concern over a shortage of radiologists capable of fathoming the often complicated pictures—and over missed diagnoses resulting from flawed readings.

Biomedical engineer Isaac N. Bankman of the Johns Hopkins Applied Physics Laboratory has a potential solution. His team, working with radiologist William R. Brody and other Hopkins physicians, has developed computer software capable of scanning mammograms and spotting clusters of tiny lumps, known as microcalcifications. Not all clusters are cancerous, so the system analyzes each one to see if it fits known patterns for malignancy. In early tests, it was able to pick out the same ominous lumps spied by the Hopkins doctors. "We are not going to replace the radiologist," says Bankman. "But the goal—and so far, the preliminary results achieve this goal—is to do as well as the most expert radiologist."

LESS TOXIC LIVING THROUGH ELECTRICITY?

Cleaning up a toxic site full of gasoline, pesticides, or solvents isn't easy, especially if the contaminants are deep in the ground. Battelle Memorial Institute scientists at the Energy Dept.'s Pacific Northwest Lab in Richland, Wash., have developed a way to destroy such organic toxics by zapping the site with electricity.

Engineers run electric current through pipes to heat the ground so that moisture boils into steam that can be drawn up through a separate perforated pipe. Then, gasoline vapors and other volatile toxics can be destroyed above ground using a high-voltage electric field. More stubborn contaminants, Battelle says, can be destroyed directly by raising the voltage to create a plasma or flame underground. Battelle expects the process to be safer, quicker, and cheaper than digging up soil for treatment.



SWINGING AT THE RIGHT MORTGAGE PITCH

Call it the home buyer's paradox. When prices look affordable and borrowing turns cheap, it's usually because the national mood is grim and the economy seems dead. To take advantage of the real estate market, first you have to snap out of your depression.

Summer '92 is no exception. Mortgage rates haven't looked this tempting since the Watergate years. The difference is that lenders offer a much wider variety of home loans today than they did 20 years ago. Whether you're bold or conservative, optimistic or full of election-year angst, there's probably a mortgage product for you. All you have to do is crunch lots of numbers and read lots of fine print.

By far the most popular mortgage remains the 30-year fixed-rate loan, with interest in some regions as low as 7.75%. Next come 15-year fixed-rate mortgages, which run about a quarter-point lower than for 30-year terms. Because they're paid off in half the time, such loans are increasingly attractive to young couples who would like to make the last mortgage payment before the kids go to college and among older people who want to retire free and clear.

STEEP CURVE. No matter what the term, the security of an unchanging monthly payment is an automatic draw for the majority of home buyers. "To this day, 75% to 80% of people still reach for fixed-rate mortgages," says Vice-President Paul Havemann of HSH Associates in Butler, N.J., which tracks national mortgage trends.

But while fixed-rate mortgages offer peace of mind,



they don't necessarily give you the best financial deal. For one thing, the yield curve is so steep—that is, the spread between long-term and short-term interest rates is so wide—that you can get an adjustable-rate mortgage (ARM) for as little as 4.5%, almost half the rate of a 30-year fixed. Moreover, such quotes aren't artificially low.

"They're not really 'teaser' rates, because the index is in the cellar along with the rates," says Havemann. That means the lender isn't just luring new customers with an interest rate that will skyrocket the second year when it catches up with its benchmark index.

Your risk with an adjustable, of course, is that the in-

dex itself will rise steadily. Fear of such a scenario is precisely what keeps the majority of home buyers away from these loans. Instead of going with your gut reaction, though, you should do the math to find out whether a fixed or floating rate is best for you. Unless you plan to stay in your home for four years or longer, the experts

er, you'll often save money with a floating-rate loan— even if your rate rises the maximum every year.

For example, say you want to borrow \$150,000, and you're trying to decide between a 30-year fixed-rate mortgage at 8% and a one-year ARM at 5.75%. The ARM has an annual rate cap of 2 percentage points and a lifetime cap of 6%, meaning your interest rate can't exceed 7.75% no matter what the market's underlying index does. Your monthly payments on the fixed mortgage would be \$1,100.65, and they'd never change. With the ARM, you'd pay only \$875.36 a month the first year.

ARM CONTROL. Assuming that an economic disaster follows, interest rates go up, and your rate goes to the maximum 2 points every year, your monthly ARM payments would rise to \$1,074.62 the second year, \$1,288.73 the third, and finally \$1,514.11 in year four. But after three years, your total payments add up to \$28,766 less than if you'd been paying 8% all along. And if rates remain stable or rise more slowly, it will take even longer for the ARM to become more expensive than the fixed rate. In some parts of the U.S., the spread between ARM rates and longer-term mortgages is so wide that it will be seven years before a fixed-rate mortgage becomes the better deal.

One way to ease the terror of annual adjustments is to opt for a longer-term ARM. The savings within a few years can still be significant, and you feel more in control. In the example above, if you locked a three-year ARM at 7.50%, you'd pay \$1,048.82 a month. Total payments after three years would be \$30,865.88 less than with the fixed-rate mortgage. And you'd be \$1,107.12 less than you'd pay with a one-year ARM, assuming the maximum annual rate rises. For first-time home buyers who plan to ride up when the economy proves, a three-year ARM makes good sense.

But there's another peril to

ARMs besides the interest-rate gamble. "People don't know the right questions to ask about adjustables," says Margaret Scott, president of Mortgage Advisory Services, a broker that works with 35 lenders in the New York area. First, she says, make sure you know to which index the ARM is pegged. Many are linked to the rate on Treasury

new rate accordingly. Knowing which benchmark a bank employs has helped many a borrower correct costly mistakes.

Second, to their costs of funds lenders add a margin of 2 to 4 percentage points. The margin is where you can lose out in the long term if you're not careful, says Scott. Here's how: Bank A offers a one-

fixed-rate loan at somewhat lower rates. With a so-called 5-25 mortgage, you pay about 1 point less than the going rate for 30-year loans, and the rate stays put for five years. Then it's recalculated to reflect prevailing rates for 30-year fixed-rate mortgages. A 7-23 starts out slightly more expensive, but your rate is locked in for the first 7 of its 30 years.

With two-step mortgages, "you're getting the loan at a discount, provided you move after either five or seven years," says Scott. The bank, of course, is betting you won't move. But even if you don't, you know how your new rate will be calculated, and there's only one adjustment to live through.

Since the average American moves every six years, people who choose fixed-rate mortgages over today's cheap ARMs do so mainly for psychological reasons. But the economic cycle may bear out their instincts. Over the past 10 years, it's true, adjustable-rate mortgages have saved people money. "But that's because we've had a down trend in interest rates," remarks Warren Lasko, executive vice-president of the Mortgage Bankers Assn. As soon as interest rates begin cycling up again, the long-term loan will look smarter.

If you already have a mortgage, now may also be a superb time to refinance. In that case, you need to figure out whether it's worthwhile to pay closing costs all over again. To recoup those costs, you must either cut your monthly payments radically or stay in your house long enough for smaller payment reductions to add up.

The only reason people aren't beating down bank doors to refinance now, says HSH's Havemann, is that most of them did it back in January, when mortgage rates were almost as low as they are now. "But if you missed the boat then, your ship has now come in," he says. That can be said of anybody not too seaisick to look at real estate.

Joan Warner

A SMORGASBORD OF MORTGAGES

Rate*

Monthly payments

Total payments after first 7 years**

**30-YEAR
FIXED**

8.32%

\$1,134

\$95,280

**15-YEAR
FIXED**

7.87%

\$1,422

\$119,448

**1-YEAR
ARM**

5.57%

\$858

\$109,860

**3-YEAR
ARM**

7.50%

\$1,049

\$100,980

**5-YEAR
ARM**

7.58%

\$1,057

\$93,900

**7-YEAR
TWO-STEP**

7.75%

\$1,075

\$90,300

*Estimated annual interest rate for July

**Interest and principal on a \$150,000 loan, not including points or closing cost and assuming the worst-case scenario for ARMs with 2% annual and 6% lifetime caps

securities of the same term—that is, a one-year ARM will be based on the one-year T-bill rate, a three-year ARM on the three-year note.

Another common index is the so-called 11th District cost of funds, established by the Federal Home Loan Bank Board in the southwestern

Fixed or adjustable? The answer isn't always so simple

U.S., where many banks' parent or holding companies are based. The 11th District index tends to be slightly less volatile than Treasury rates, moving up more slowly when interest rates rise and dropping more slowly when they fall. Lenders look at these indices 45 days before your loan's anniversary date and set your

year ARM at only 5% for the first year, with a three-point margin. Bank B across the street charges 5.75% for its adjustable, but at a margin of just 2.25%.

Now, both margins exceed the 2% annual adjustment cap, so initially, Bank A seems the better deal. But once the loans are fully indexed—that is, once you're paying the underlying rate plus the bank's full margin—you'll always pay three-quarters of a point more at Bank A. On the other hand, Bank A has a lower lifetime cap, because the maximum number of percentage points will be added to a lower base rate. So, as with all mortgages, how long you plan to stay in your house and whether interest rates are trending up or down should be factors in your choice.

An increasingly popular type of mortgage, the two-step, offers the stability of a

Smart Money

ARE UP-FRONT SAVINGS ON CLOSED-END FUNDS FOR REAL?

Typically, if you buy a closed-end mutual fund through a brokerage firm when it's first offered, you have to pay an up-front sales fee, or load. The charge, which runs 6% to 7% of the amount you invest, helps pay the brokers' commissions but cuts into your return.

Now, a handful of securities houses have begun selling closed-end funds that carry no loads. The immediate advantages are hard to dispute. "Compared to a normal closed-end fund where you have 94¢ left (after the load), with ours you have \$1 working for you on day one," says Jerome Miller, president of Shearson's Asset Management Group.

Still, no one's giving anything away. Without a load,

open-end muni-bond funds (0.78%). "A higher expense ratio heightens the hurdle the manager has to jump over to make a decent return," says Gillis.

One bargain is Smith Barney's Intermediate Municipal Fund, which estimates its expense ratio at just over half a percentage point.

TRADING DOWN. Since the funds are so new, it's hard to evaluate their performance. Shearson's Managed Municipals won't start trading until July 17. (Investors buy the shares of closed-end funds through initial public offerings and sell them like stocks to cash out.) Van Kampen's no-load funds show attractive yields, but they come at the expense of leverage: It borrows money at lower

BROKER CLOSED-END NO-LOAD FUNDS

	Assets millions	Annualized expenses per \$100*	Yield 7/10/92
VAN KAMPEN MERRITT MUNICIPAL TRUST	\$879	1.49	6.91
SHEARSON LEHMAN BROTHERS MANAGED MUNICIPAL FUND	360	1.10	6.10**
SMITH BARNEY INTERMEDIATE MUNICIPAL FUND	82	.60	5.88

* Annualized expenses to common shareholder's equity ** Estimated yield pending first dividend payment DATA: SHEARSON LEHMAN BROTHERS INC.; SMITH BARNEY, HARRIS UPHAM & CO.; VAN KAMPEN MERRITT INC

some of these funds charge a higher percentage in annual expenses to cover the commission. "You still pay the broker," says Catherine Gillis, editor of *Morningstar Closed-End Funds*. "It's just a matter of when."

Van Kampen Merritt, which began offering the first no-load closed-end funds late last year, has a 1.49% expense ratio—management and operating expenses to shareholder assets—on its Municipal Trust. That's higher than Morningstar's averages for either closed-end municipal funds (0.93%) or

short-term rates, invests at higher long-term rates, and captures the difference. Its Municipal Trust yielded 6.97% through June 30, compared with Morningstar's average of 6.8%. And many of the Van Kampen no-loads are trading at discounts to their offering price, so investors who bought at the offering and want to cash out may lose principal.

Regardless, the funds' purveyors insist that no-loads are a good deal. But with a product that is less than a year old, that claim is hard to prove. *Leah Spiro*



FORD PROBE GT: SEDUCTIVE CURVES, BUT SHORT ON INTERIOR DESIGN

Autos

TWO SISTER SPEEDSTERS GET RACY NEW LOOKS

For the young, image-conscious buyers of sports coupes, getting from 0 to 60 in six seconds matters less than a car's looks. With that in mind, Ford and Mazda put much of the emphasis on styling when they redesigned the Probe and its sister car, the MX-6.

Under the hood, the two are identical, sharing the same jazzy 24-valve, V-6 engine in the high-end models and a 16-valve, 4-cylinder engine in the low-end versions. Ford's Probe also offers the same spirited driving performance and smooth shifting as the Mazda, with an important difference: The base model Probe is as much as \$2,700 cheaper than the Mazda.

When it comes to looks, these two aren't twins. The Probe is muscular, with a front end that slopes three inches lower than its predecessor, giving the driver a racier feeling than the level MX-6. The Probe's lines curve in seductively from the front wheel well and fan out again to the rounded wraparound tail lights. The wide aluminum-alloy wheels offer control during tight turns.

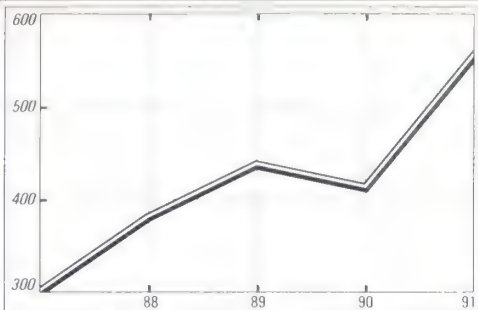
Mazda's teardrop-shaped MX-6 is more the sophisticate. Designed by an American team in Irvine, Calif., it sheds the boxiness and rear-end

spoiler of the older model for a smooth, sleek look.

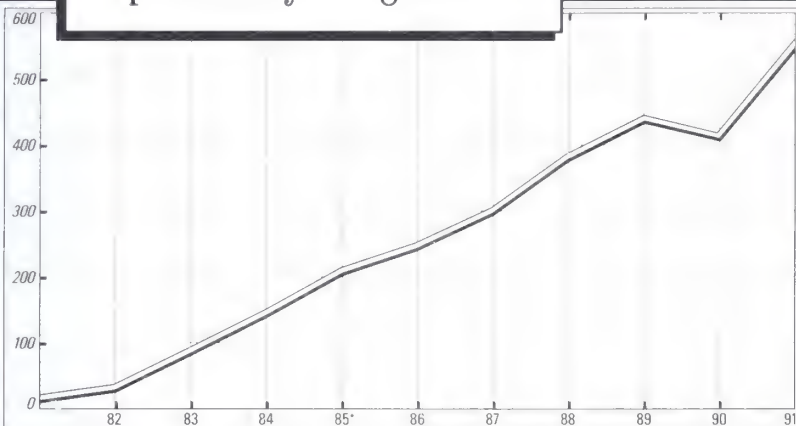
The Probe falls short of the MX-6 on interior design. Its narrow bucket seats are uncomfortable, and the car barely has room to squeeze in three adults. The dashboard is plain, even on the fancier GT version. Climate controls are huge, but the tiny buttons on the radio make station selection a chore.

SOUND MACHINE. The MX-6, with wider seats and ample leg room, can accommodate as many as four adults. The dashboard not only has better controls but also more of them, such as separate ventilation knobs for your head and feet. The MX-6 also offers an audio option not available on the Probe: a sound system with both a tape and compact-disk player.

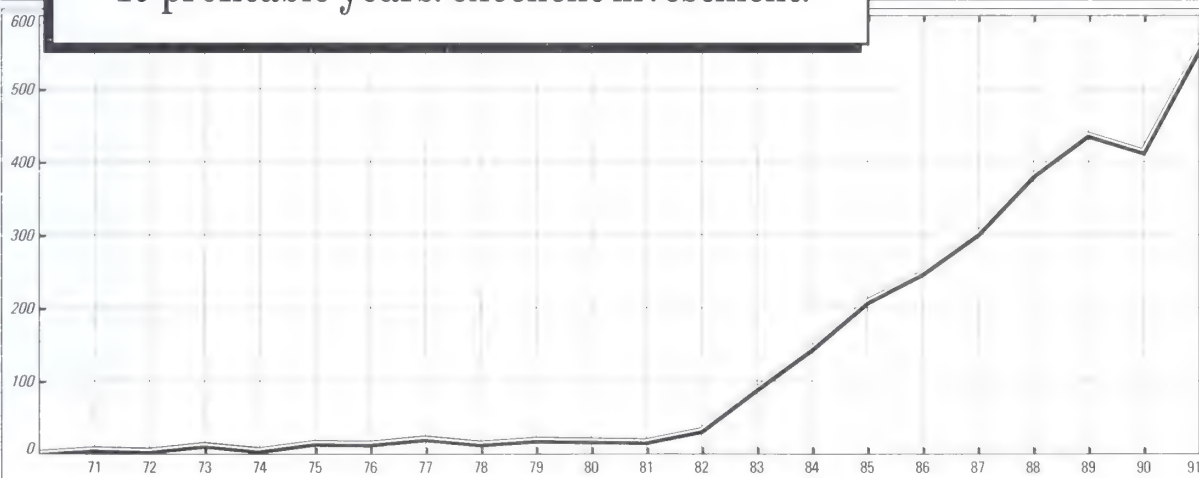
But if you prefer the poise and polish of the Mazda, be prepared to pay. On top of the \$15,550 base price for the least costly model, you have to shell out \$850 extra for air conditioning, \$800 for antilock brakes, \$1,000 for leather seats, and \$700 for a CD player. The Probe starts at \$12,845, and the GT with the larger engine and better suspension goes for \$15,174, options not included. For that price, the car is an attractive package. *Greg Bowens*



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One of Great Britain's consumer organizations, assessed the safety of cars by dismantling them, in order to study safety aspects of their design.

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Tangible proof of Saab's leadership in combining safety systems such as energy absorbing crumple

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es, protective safety cage, belt tensioners and
e-impact protection.

Yet what these accidents studies don't reveal, is
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SAAB

Private Banking

WHERE THE WELL-HEELED GET MORE THAN HAND-HOLDING

Step through its glass doors and you'll see that Bessemer Trust is no ordinary bank. Tucked away on the 39th floor of Rockefeller Center's International Building,

of paying bills, personal accounting, and educating spouses and children about finances," says Bessemer Senior Executive Vice-President Robert Elliott, who numbers among his jobs minding President Bush's blind trust. But as markets have gone global, holding a client's hand isn't enough. The executives and entrepreneurs that comprise today's private-banking clientele want performance along with attention. "There's more to private banking than putting assets in Treasury bills," says

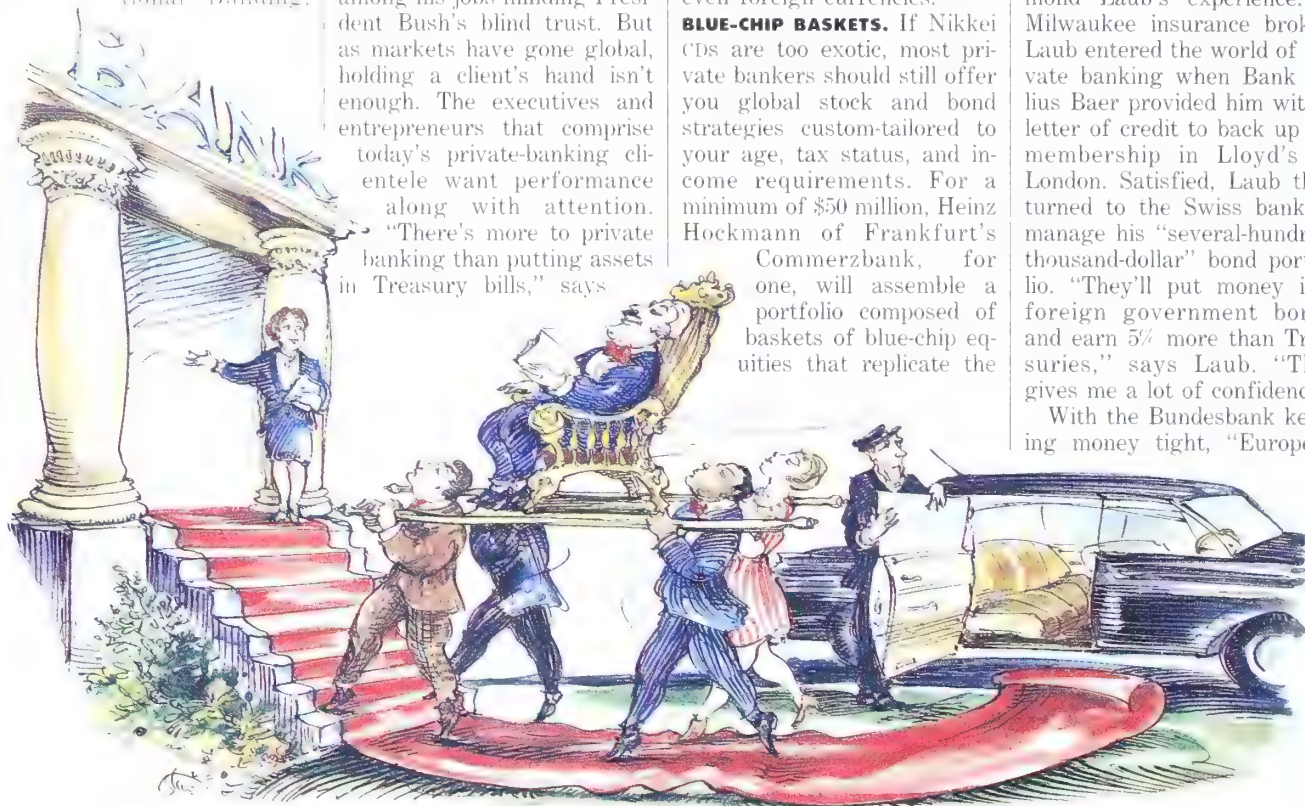
funds (table). Along with estate planning and tax advice, for example, you may find Bankers Trust Managing Director Mary Lehman inviting you to invest \$500,000 to \$2 million in one of the bank's currency-trading funds. Or maybe you'd like a newfangled certificate of deposit whose yield is tied to the future performance of the Standard & Poor's 500-stock index, the Nikkei stock average, or even foreign currencies.

BLUE-CHIP BASKETS. If Nikkei CDs are too exotic, most private bankers should still offer you global stock and bond strategies custom-tailored to your age, tax status, and income requirements. For a minimum of \$50 million, Heinz Hockmann of Frankfurt's Commerzbank, for one, will assemble a portfolio composed of baskets of blue-chip equities that replicate the

neurs restructure their finances is becoming a major market for private bankers. Many of these executives have paid surprisingly little heed to their personal portfolios. Now, in developing a financial plan, many bankers suggest investing at least 15% of assets in stocks and bonds offshore to guard against the ups and downs of the U.S. economy.

That's certainly been Raymond Laub's experience. A Milwaukee insurance broker, Laub entered the world of private banking when Bank Julius Baer provided him with a letter of credit to back up his membership in Lloyd's of London. Satisfied, Laub then turned to the Swiss bank to manage his "several-hundred-thousand-dollar" bond portfolio. "They'll put money into foreign government bonds and earn 5% more than Treasuries," says Laub. "That gives me a lot of confidence."

With the Bundesbank keeping money tight, "European



you will find no tellers, cash machines, or racks of brochures pushing IRAs and home mortgages—just a smiling receptionist seated before a portrait of Bessemer's be-whiskered founder, turn-of-the-century steel magnate Henry Phipps. And, oh, yes, one requirement: You should be planning to invest at least \$5 million.

For much of this century, gilt-edged private banks such as Bessemer have ministered to needs of the wealthiest by clipping coupons, helping get their kids into the right schools, and managing their complicated estates. Indeed, "we still do a lot

Chase Manhattan Bank Vice-President Richard Dolny. "Our clients are looking for unique services."

Such demands are prompting banks to present to their best-heeled customers many services once available only to large corporations or pension

major stock-market indices of 15 countries, including Germany, Japan, and the U.S.

You're even likely to find your banker offering loans and advice for your business. Bankers Trust may invite you to take courses at the Owner Managed Business Institute, its affiliate in Santa Barbara, Calif. Or it may roll out corporate-finance experts to help get a deal done. Not long ago, Lehman helped a retiring client rework his will, sell part of his business, and set up a medical-research foundation with \$2.5 million of the proceeds.

Assisting such post-World War II entrepre-

yields are outstanding right now," says Baer's private-banking chief, Henry Looser. He currently favors French government bonds paying 8.7%. Looser and other bankers are also high on a wide range of European equities.

Such advice isn't free. On a typical portfolio of \$10 million, Bessemer will charge about \$90,000. Fees generally decline as your assets grow. But what doesn't decline, bankers insist, is their devotion to keeping your assets secure. "A private client doesn't want to lose money, period," says Looser. Despite the new wrinkles, that's what most customers still want to hear first.

William Glasgall

A SAMPLER OF SERVICES

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CHASE MANHATTAN Help in restructuring and selling family businesses

Collecting

ISN'T THAT WHISTLER'S OFFER?

Even more golf nuts than usual converged on Scotland this month, and not just because the British Open was being held at Muirfield. The occasion was a threesome of golf-collectibles sales at the Sotheby's, Christie's, and Phil's auction houses.

As in years past, old golf clubs and balls generated excitement. But lately, many collectors have also taken an interest in antique golf work, such as watercolors, paintings, and prints. "In the last two years, it's really taken off," says Mort Olman, Cincinnati art dealer and golf historian. "Now, everybody wants golf art."

The supply of good antique golf art happens to be very limited. You know what that means: Prices are going up. Two years ago, a turn-of-the-century watercolor by J. Michael Brown went for \$30,000. Sir John Lavery's impressionistic depiction of Scotland's North Berwick course, circa 1918, recently sold for over \$110,000.

The largest price tag for a piece of golf art is believed to be nearly \$200,000 for a sketch by Francis Grant. He made the piece, which sold last year, as a study for a full-sized portrait of Andrews golfer John Hayte-Melville in 1874.

BEYOND KNICKERS. The earliest "proper" golf—depicting the Scottish game, not a similar catch sport—can be traced to the mid-1700s, says Edward Monagle, Christie's golf specialist. But there wasn't much of it until the early 19th century, when a few wealthy golfers commissioned portraits of themselves in golfing attire or pos-

ing with their clubs. Most of the originals from this era are either in museums or private collections and rarely change hands.

Budding collectors who don't want to bust the bank should focus on the late 19th century through the 1930s. "A rule of thumb for collectors," says Kevin McGrath, a dealer from Melrose, Mass., "is that the era of antiquity ended about when the golfers stopped wearing knickers."

Brown is easily one of the most popular golf artists of this period. A Scot, he is best-known for illustrations that were used in the calendars of a Scottish life insurer. His watercolor of a golfer and caddy at Hoylake was expected to fetch \$5,000 to \$9,000



J. Michael Brown's watercolor, Hoylake. The turn-of-the-century painter is a favorite of many golf art collectors

character named Major Short-spoon. And Harry Rountree, a transplanted New Zealander who died in 1950, is best-loved for his dramatic landscapes in *The Golf Courses of the British Isles* by Bernard Darwin.

LONG SHOT. George Straton Ferrier, a little-known landscape artist from Edinburgh, apparently did only one golf painting. But that didn't dampen collectors' enthusiasm. Sotheby's just sold the century-old watercolor for around \$30,000. In golf, that's what's known as beginner's luck.

Two of the few Americans to dabble in golf scenes—in the knicker-wearing days, that is—were Howard Chandler Christy and A.B. Frost. Both did much of their work as illustrators for magazines such as *Harper's*.

Sensing a hot market, some auction houses are trying to sell paintings of the Dutch game colf, or kolf, to golf collectors. On July 16, Christie's hoped to bring around \$15,000 for a portrait of a young colfer by an unknown follower of Wybrand De Geest. Yet some collectors won't have anything to do with the Dutch. Colf, played

on ice, "is not really golf," sniffs McGrath. "It would be like a baseball person collecting cricket items."

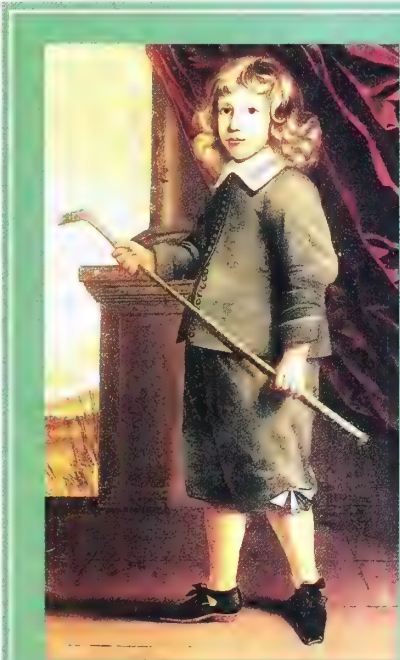
For the time being, it's not easy for Americans to jump into golf art collecting. Although McGrath holds occasional auctions at his firm, Sporting Antiquities, you'll most likely have to travel to England and Scotland for the big sales. But the way prices have been going lately, paying for a trip across the Atlantic will be the least of your expenses.

Peter Finch

Worth Noting

■ **YOUR BID.** A Las Vegas casino and a Hilton Head Island golf course are among 70 properties worth a total of \$500 million to be auctioned by a private real estate company on Aug. 13 in Los Angeles. Minimum bids range from \$700,000 for a Minneapolis office building to \$22 million for a Los Angeles apartment tower. A 100-page catalog is free: 800 522-6664.

■ **HEALTH CALL.** The Arizona Heart Institute & Foundation's toll-free number (800 345-4278) provides information on heart disease. Operators answer from 8 a.m. to 5 p.m. (mountain time) with general tips, treatment alternatives, and emergency help.



Dutch "colfer" by a follower of Wybrand De Geest: Is it golf art?

at Christie's on July 16.

Lots of collectors get a kick out of Francis P. Hopkins, a British golf journalist and illustrator who liked to portray himself in his paintings as a

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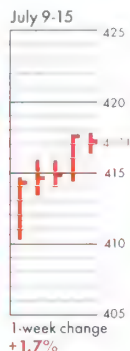
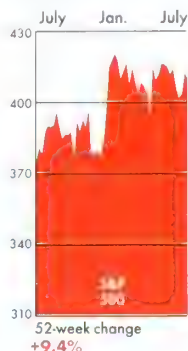
Zenith Electronics 40

Investment Figures of the Week

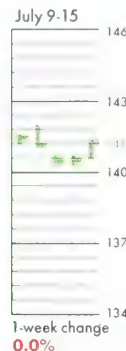
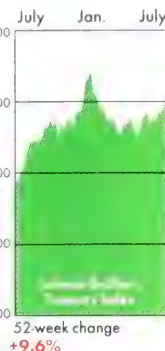
COMMENTARY

been a generally upbeat week in the financial markets, spurred by renewed confidence in the economy. The Dow Jones industrial average climbed 31 points on July 9, and more broadly based indices gained as well, as investors cheered that the recovery would falter. But traders took profits July 15, with the Dow falling 13 points after the Federal Reserve revealed a 0.3% decline in industrial production during June. The news spurred a rally in the bond market, however.

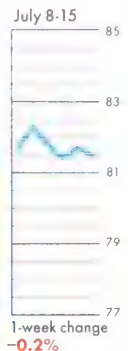
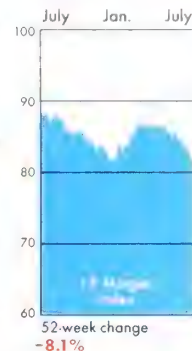
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

U.S. STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3345.4	1.6	12.3
SMALL COMPANIES (Russell 1000)	220.5	1.7	10.6
TECHNICAL COMPANIES (Russell 2000)	191.1	2.9	11.6
INDUSTRIAL COMPANIES (Russell 3000)	234.3	1.8	10.7

FOREIGN STOCKS

	Latest	% change (local currency) Week	% change (local currency) 52-week
LONDON (FINANCIAL TIMES 100)	2486.4	0.6	-2.9
TOKYO (NIKKEI INDEX)	17,116.9	3.1	-25.8
TORONTO (TSE COMPOSITE)	3472.0	1.6	-2.0

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.25%	3.30%	5.8%
30-YEAR TREASURY BOND YIELD	7.63%	7.61%	8.5%
S&P 500 DIVIDEND YIELD	3.01%	3.07%	3.2%
S&P 500 PRICE/EARNINGS RATIO	23.6	23.2	18.7

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	410.8	410.9	Positive
Stocks above 26-week moving average	44.9%	40.7%	Neutral
Speculative sentiment: Put/call ratio	0.38	0.47	Neutral
Insider sentiment: Vickers sell/buy ratio	2.01	2.10	Neutral

INDUSTRY GROUPS

4-WEEK LEADERS

	% change 4-week	% change 52-week
HEALTH CARE SERVICES	12.1	47.3
DRUG CHAINS	11.0	4.0
TRANSPORTATION SERVICES	10.5	21.2
SHOES	9.7	20.3
HOSPITAL MANAGEMENT	9.7	-33.1

4-WEEK LAGGARDS

	% change 4-week	% change 52-week
TRUCKING	-13.7	1.6
DIVERSIFIED MACHINERY	-6.9	-6.4
ENGINEERING AND CONSTRUCTION	-6.4	-15.3
TOYS	-6.0	46.7
CHEMICALS	-5.7	4.2

Strongest stock in group

	% change 4-week	% change 52-week	Price
BEVERLY ENTERPRISES	18.3	-17.4	8 7/8
WALGREEN	16.5	9.6	37
FEDERAL EXPRESS	13.7	12.7	46 3/4
NIKE	17.1	56.2	67 3/4
HUMANA	13.6	-27.3	23

Weakest stock in group

	% change 4-week	% change 52-week	Price
ROADWAY SERVICES	-16.6	13.1	60 1/4
INGERSOLL-RAND	-12.7	3.9	26 5/8
FLUOR	-8.6	-17.4	38 5/8
HASBRO	-6.9	35.4	26 7/8
B. F. GOODRICH	-15.7	4.8	43 1/2

BRIDGE INFORMATION SYSTEMS INC

MUTUAL FUNDS

LEADERS

	%
4-week total return	
FIDELITY SELECT SAVINGS & LOAN	7.7
FIDELITY SELECT BIOTECHNOLOGY	7.6
CENTURY SHARES	6.9
52-week total return	
FIDELITY SELECT SAVINGS & LOAN	64.6
FIDELITY SELECT REGIONAL BANKS	59.8
FREEDOM REGIONAL BANK B	51.6

LAGGARDS

	%
4-week total return	
LEXINGTON STRATEGIC INVESTMENTS	-13.8
UNITED SERVICES GOLD SHARES	-13.3
SCHILD AGGRESSIVE GROWTH	-10.1
52-week total return	
LEXINGTON STRATEGIC INVESTMENTS	-54.9
UNITED SERVICES GOLD SHARES	-42.9
G. T. JAPAN GROWTH	-29.2



MORNINGSTAR INC

RELATIVE PORTFOLIOS

Relative amounts
represent the present
value of \$10,000
invested one year ago
each portfolio
percentages indicate
1-day total returns


Treasury bonds
\$11,896
-0.85%


U. S. stocks
\$11,169
+2.08%


Foreign stocks
\$10,466
+0.67%


Money market fund
\$10,384
+0.06%


Gold
\$9,487
+1.34%

DATA RESOURCES INC

Data on this page are as of market close Wednesday, July 15, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

July 14. Mutual fund returns are as of July 10. Relative portfolios are valued as of July 14. A more detailed explanation of this page is available on request.

THE DEMOCRATS FINALLY GET IT

Democrats of America, welcome to the economic realities of the '90s! It may have taken a string of defeats in Presidential elections to pound the message home, but the Democratic Party has finally got it. Traditional redistributionist economics are as popular among voters as Saddam Hussein. Seeking redemption, the Democratic Party in its platform this year says yes, we've learned that markets are more important than big spending programs, that individual responsibilities come with collective rights, and, above all, that a government that boosts its economy does more to solve social problems than one that simply divides an existing pie.

The economic heart of the platform is its emphasis on investing in people and infrastructure. Here the traditional activist government impulse of the Democratic Party is refocused on educating and retraining the work force and rebuilding highways, both the concrete and fiber-optic kind. Upgrading work-force skills is one of the best ways to improve the nation's productivity and global competitiveness. By calling for apprenticeship programs, expanded opportunities for college education, and more funding for Head Start, the platform is right on target. Its investment tax credits and capital-gains cuts for patient investors are in the bull's-eye as well.

What is missing, of course, is who pays. Defense cuts are necessary but not sufficient—and the Democrats know it. But Barbara Jordan was the only speaker at the convention to openly admit it. In her brave speech, Jordan said, "We must frankly acknowledge our complicity in the creation of the unconscionable budget deficit...and recognize, painful though it may be, that...we must address the question of entitlements. That's not easy, but we have to do it." For all the distance the Democrats have traveled in transforming their economic positions, this is the final step. Without taking it, none of their other dreams can come true.

DON'T LET THE TRADE DOORS SWING BACK NOW

Northern Telecom Ltd.'s remarkable success in cracking global markets for telecommunications equipment provides a timely reminder of the benefits of free trade to a world threatening a retreat to protectionism. In Canada, Northern Telecom's home, the U.S.-Canada Free Trade Agreement is becoming extremely unpopular. In the U.S., pressure is building this presidential election year to ditch efforts to throw open U.S.-Mexican trade borders. Overseas, the General Agreement on Tariffs & Trade are stalled, and many service industries still remain protected. Northern Telecom has built its success by quickly jumping into telecommunications markets as soon as they open. In 1984, with the breakup of the American Telephone & Telegraph Co. monopoly, it became a

major supplier of digital switches to the Baby Bells. Today, Northern Telecom is the second-largest supplier of telecommunications equipment in the U.S. market, with \$4.3 billion in U.S. sales last year (page 54).

Northern Telecom's success in the U.S. has brought enormous benefits to both countries. If the company had not been able to compete in the U.S. market, it is doubtful it would ever be around today, providing employment to 22,000 Canadians and about 22,000 Americans as well. Because of Northern Telecom's fierce competition with AT&T, U.S. phone companies now pay the world's lowest prices for central office switches, the guts of the phone system.

In the 1990s, Northern Telecom is growing by jumping into newly opened overseas markets in Europe and Asia, where deregulation and privatization are just beginning to open the door a crack for foreign corporations. It bought the British telecom company STC and has recently taken a stake in France's Matra. In Japan, Northern Telecom is the leading foreign supplier of phone equipment.

Continued protectionism may serve the interests of local suppliers, but it imposes a heavy burden on corporations and consumers. In Europe, for example, phone companies pay far more for central office switches than their U.S. and Canadian counterparts. That's why the remaining barriers to free competition in telecommunications need to be eliminated. That's why open markets, in the end, work for everyone.

RUSSIA: SHAREHOLDER POWER TO THE PEOPLE

It's a powerful idea that may finally put former communist nations firmly on the road to market capitalism: Give the people a taste of ownership, and they just may like it. That's what Czechoslovakian Finance Minister Václav Klaus's hugely successful voucher program is doing (page 43). In the fall, Russia plans to distribute vouchers that can be exchanged for shares of ownership, and the Baltic nations are investigating vouchers as part of their privatization programs. In countries where powerful interests from local apparatchiks to entrenched managers are vying for control of industrial assets, it makes sense to spread ownership throughout the population. What once belonged to the people in theory can now belong to the people in fact.

The privatization of Russian state enterprises was officially launched by presidential decree on July 1 (page 48). Beginning in the final months of the year, vouchers will be distributed, free of charge, to everyone. Their value is likely to be 10,000 rubles—about three months' wages—and they will entitle each citizen to obtain stock in newly privatized companies at auctions. The vouchers will be freely tradable, so some individuals may become big shareholders.

So far, the West has focused too much on pressing Russia to pursue monetary and fiscal discipline. That's a worthy goal. But making sure that government-owned enterprises pass into the hands of the people is even more important for the economic and political success of Russian reform. The voucher plan deserves to get more technical help in the form of marketing and training assistance from the West.



HOLLAND

en. The sun rises on the is-
d of Java, shining down on a
n travelling the Surabaya-
tosono line. The track circuits
ours. A few hours later, the
e sun rises over our power
tion at Mers El Hadjadj, Alge-
And, later still, over our geo-
rma! plants in Middletown,
ifornia. Hour after hour, the
rises over our achievements
70 countries. In 30 of these we
e established sales and pro-
ction organizations. We at

**WITHOUT MOVING AN INCH
WE SEE THE SUN RISE
70 TIMES A DAY.**

ANSALDO
INDUSTRY POWER TRANSPORTATION

Ansaldo are world leaders in electromechanics. We know how to combine advanced design and constructional ability, flexibly. That's how we are able to supply specific solutions for industry, power and transportation. Fields united by a common strategic vision, based on advanced technology, research, and the quality of our human resources. Stop, now, and think: at this instant, somewhere in the world, the sun is rising on Ansaldo.



THIS IS THE INNOVATION

THAT SET THE STANDARD

THAT'S PART OF THE HERITAGE

THAT CREATED THE NEW COMPANY

THAT'S MAKING ITS MARK

BY HELPING YOU

MAKE YOURS.

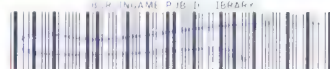


EC NEW BOSS,
OLD PROBLEMS

EXPORTS A CHEAP DOLLAR
ISN'T ENOUGH

INNOVATION NEW SCOREBOARD
ON PATENTS

BUSINESS WEEK
2 August 3



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BusinessWeek

AUGUST 3, 1992

A MCGRAW-HILL PUBLICATION

\$2.75

SMART SELLING

BURLINGAME

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**HOW TO
WIN OVER
TODAY'S
TOUGHER
CUSTOMER**

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3 1



It Runs On Gasoline. But Most

The charge is entirely positive. An electrifying surge of raw power generated by a 250-hp 32-valve V8 engine. The Lexus SC400 can muster 60 exhilarating miles per hour



Drivers Say It's Electric.

just 6.9 seconds*.

Yet for all that strength, the SC400 responds obediently to your commands.

A racing-inspired double-shockbone suspension provides

excellent stability and quick, true handling. Engineering refinements cushion the vibration that usually accompanies such performance, so you feel the road but not many of its jolts.

And while the excitement never stops, the car most assuredly will—thanks to an advanced anti-lock braking system with large vented discs.

Motor Trend magazine was electrified enough to name the Lexus SC400 their 1992 Import Car of the Year.

Now it's your turn.

If you've forgotten how much fun driving can be, get behind the wheel of an SC400. Fill up the tank. And prepare to have your battery recharged.



The Relentless Pursuit Of Perfection.



BORN TO RAISE DELL: CONSTANT TRAINING REINFORCES THE COMPANY'S CREDO THAT CUSTOMERS "MUST BE PLEASED, NOT JUST SATISFIED"

Cover Story

46 SMART SELLING

At too many companies, selling means hustle and hype, not service. Small wonder that customers are getting fed up. To win them back, companies must rethink everything from how salespeople are hired, trained, and compensated to the way the corporation is organized

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Car buyers accustomed to haggling are in for a sweet surprise

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These Cincinnati bankers don't wait for customers to come to them

51 HOME DEPOT

Cheerleading from everyone—and clerks who know their stuff

51 JEFFERSON SMURFIT

There's even a science to selling industrial packaging

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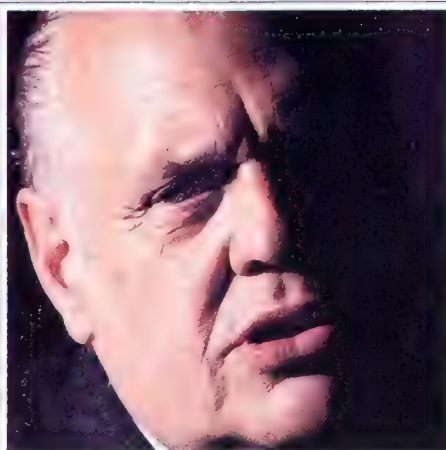
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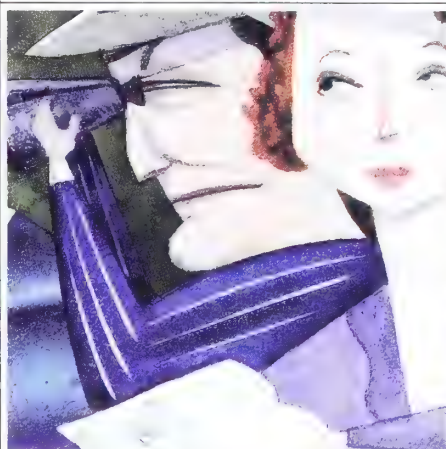
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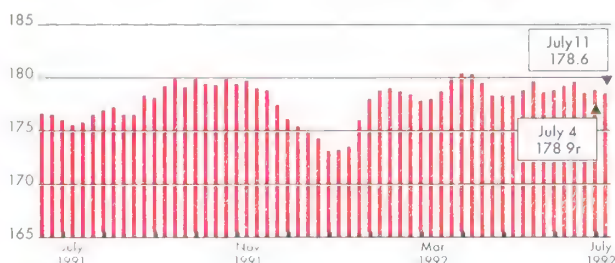
BusinessWeek Index

PRODUCTION

Change from last week: -0.2%

Change from last year: 1.7%

1967=100 (four-week moving average)



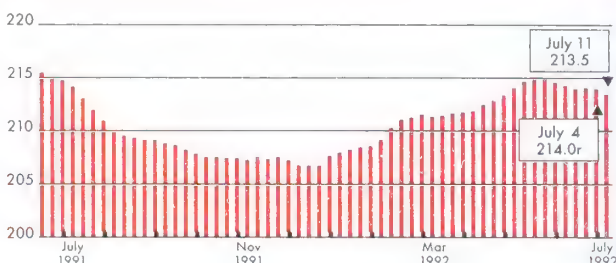
The production index edged lower during the week ended July 11. On a seasonally adjusted basis, output of autos, trucks, paper, and paperboard, as well as rail-freight traffic, declined. Lumber, coal, electric power, and steel production increased, while crude-oil refining output was unchanged from the previous week. Before calculation of the four-week moving average, the index dropped to 180.6 from 181 in the prior week.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: -0.4%

Change from last year: 0.4%



The leading index declined during the week ended July 11. The index has weakened considerably over the past two months. A sharp increase in the number of business failures and slower growth in the money supply, real estate loans, and materials prices offset higher stock prices. Bond yields were virtually unchanged. Before calculation of the four-week moving average, the index dropped to 213.6, from 214.1 in the prior week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (7/18) thous. of net tons	1,723	1,796#	7.7
AUTOS (7/18) units	106,098	84,596r#	16.0
TRUCKS (7/18) units	68,830	43,162r#	-1.9
ELECTRIC POWER (7/18) millions of kilowatt-hours	67,744	65,431#	1.1
CRUDE-OIL REFINING (7/18) thous. of bbl./day	14,097	14,178#r	2.2
COAL (7/11) thous. of net tons	16,814#	16,647	-6.8
PAPERBOARD (7/11) thous. of tons	784.9#	815.7r	5.6
PAPER (7/11) thous. of tons	711.0#	760.0r	6.8
LUMBER (7/11) millions of ft.	446.6#	376.8	-11.2
RAIL FREIGHT (7/11) billions of ton-miles	19.6#	19.0	4.8

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPAA, SFPAA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (7/22)	127	125	138
GERMAN MARK (7/22)	1.49	1.48	1.75
BRITISH POUND (7/22)	1.9	1.93	1.68
FRENCH FRANC (7/22)	5.03	4.99	5.94
CANADIAN DOLLAR (7/22)	1.19	1.20	1.15
SWISS FRANC (7/22)	1.32	1.34	1.52
MEXICAN PESO (7/22)	3,099	3,101	3,028

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (7/22) \$/troy oz.	358.750	350.900	-2.0
STEEL SCRAP (7/21) #1 heavy, \$/ton	88.50	88.50	-0.6
FOODSTUFFS (7/20) index, 1967=100	198.5	200.9	-0.1
COPPER (7/18) c/lb.	119.5	114.7	15.8
ALUMINUM (7/18) c/lb.	59.8	60.0	-0.3
WHEAT (7/18) #2 hard, \$/bu.	3.56	3.55	24.5
COTTON (7/18) strict low middling 1-1/16 in., c/lb.	61.34	61.58	-13.5

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (7/17) S&P 500	416.56	412.43	10.4
CORPORATE BOND YIELD, Aaa (7/17)	8.09%	8.08%	-10.5
INDUSTRIAL MATERIALS PRICES (7/17)	98.1	98.6	-0.3
BUSINESS FAILURES (7/10)	432	313	13.7
REAL ESTATE LOANS (7/8) billions	\$400.0	\$399.6r	-3.3
MONEY SUPPLY, M2 (7/6) billions	\$3,404.1	\$3,429.1r	0.6
INITIAL CLAIMS, UNEMPLOYMENT (7/4) thous.	401	416	3.4

Sources: Standard & Poor's, Moodys, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
HOUSING STARTS (June) annual rate, thous.	1,167	1,205	12.6
RETAIL SALES (June) billions	\$159.8	\$159.0	3.1
IMPORTS (May) millions	\$42,865	\$43,469r	7.1
EXPORTS (May) millions	\$35,485	\$36,406r	1.1

Sources: Commerce Dept., Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (7/6)	\$960.4	\$949.2r	12
BANKS' BUSINESS LOANS (7/8)	279.0	282.4r	-10
FREE RESERVES (7/8)	620r	984r	116
NONFINANCIAL COMMERCIAL PAPER (7/8)	143.5	141.6	-3

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (7/21)	3.15%	3.25%	5.75%
PRIME (7/22)	6.00	6.00	8.50
COMMERCIAL PAPER 3-MONTH (7/21)	3.41	3.42	5.98
CERTIFICATES OF DEPOSIT 3-MONTH (7/22)	3.33	3.35	5.97
EURODOLLAR 3-MONTH (7/18)	3.35	3.44	6.00

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

The values we're teaching kids are years behind the times.

It's 7:30 a.m. And not one minute later. A small army of young people, known as the San Francisco Conservation Corps, meets outside its headquarters at Fort Mason for morning exercise.

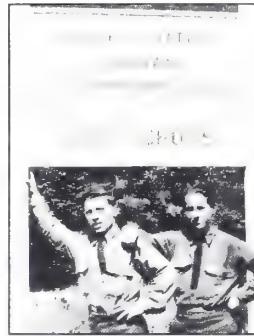
There are 130 of them. Of all ethnic backgrounds. From all over San Francisco.

Quickly, they divide into work crews and head out for every corner of The City. To plant trees. To clear weeds. To build playgrounds. To renovate community centers.

But along with making vitally needed civic improvements, these kids learn valuable lessons. About taking responsibility. Giving and receiving

respect. The diligence needed to get a job done right. And the feeling of dignity that results. Lessons they might not have learned otherwise.

It's all in a day's work. The Civilian Conservation Corps proved it



50 years ago, helping young people to help themselves and their communities beat the Depression.

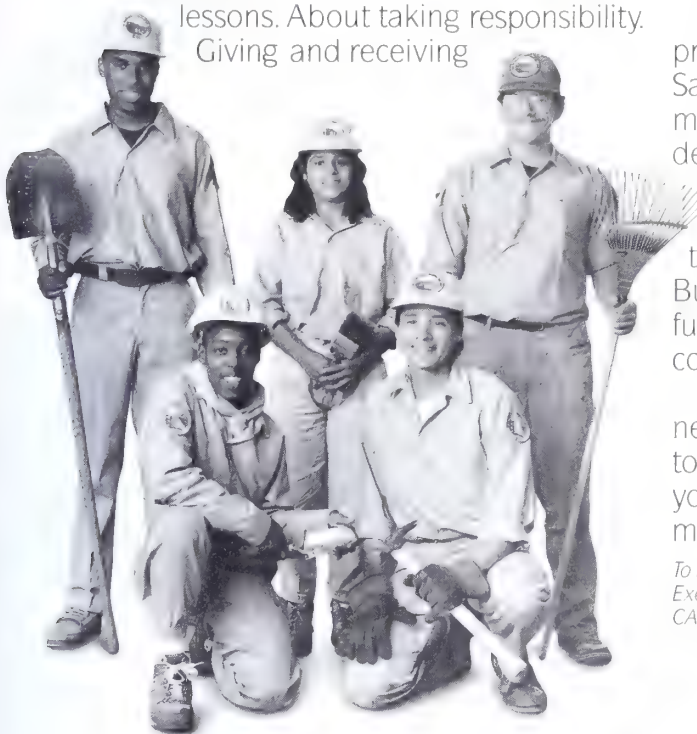
Today, the SFCC addresses similar problems that weigh heavily on the minds of San Francisco businesspeople. Unemployment. Declining city infrastructure. And, developing a strong work ethic among young people.

So far, the SFCC has realistically tackled these problems with demonstrated success. But the future depends on additional funding from the San Francisco business community.

Of equal importance, SFCC "graduates" need real job opportunities. And frankly, to find employees with such solid work ethics you'd have to be up pretty early in the morning. 7:30 a.m. to be exact.

To find out more about the SFCC, write to Executive Director, SFCC, Building 111, Fort Mason, San Francisco, CA 94123 or call 415/928-7322

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registered owners. Our thanks and congratulations to
Carole Forstall-Waldschlager Bechen,
who now lives in Brown City, Michigan.



When it comes to teaching youngsters how to read, General Foods has never been at a loss for words. Or at a loss for inspired literacy programs.

Their Reading Rocket workshop, for example, has been instrumental in instilling a real fondness and desire for reading in primary school children.

In addition, their

Partners in Change,

Jello Jigglers program,

Star Serve, Maxwell

House Learning Center,

and involvement with

Literacy Volunteers of

Westchester County

have greatly impacted

the literacy problem

as a whole. Recognizing the importance of community service in the workplace, General Foods has supported programs like these since 1958.

This is the kind of corporate activism that the Points of Light Foundation hopes to promote. The Foundation is an independent, non-profit organization founded in 1990 to encourage community service. Like General Foods and other businesses that promote public service, we are committed to

solving serious social problems on a local level, with innovative solutions.

And even though employees are often required to give time to these social programs during working hours, companies have reported only positive effects on their businesses, such

as enhanced employee self-esteem and morale, and improved leadership and teamwork.

With the participation and support of our nation's businesses, we know that real progress

can be made in solving local social problems (as General Foods has demonstrated).

To learn more about corporate involvement in community service, please call the Points of Light Foundation at 1-800-888-7700. You're probably well aware of how desperately your community needs your help. There's no need to spell it out for you.

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DOING IT FOR YEARS.



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THE WORLD OF BOB CRANDALL: NO TEA PARTY

After reading your story on American Airlines ("The airline mess," Cover Story, July 6), I immediately realized the reason for their success: Robert Crandall. Obviously the man realizes he is not at a tea party. He has taken the bull by the horns and is fulfilling his responsibility to do whatever it takes to keep his airline competitive.

I see Robert Crandall and Ross Perot cut from the same cloth—businessmen who live by the motto, "Lead, follow, or get the hell out of the way!" Instead of criticizing his management style, maybe Carl Icahn should get off his high horse and watch Crandall, a real airline man, go to work.

Christopher P. Johnson
Athens, Ga.

Crandall is the problem. Several years ago, he thought he was God. After two antitrust problems, he found out he was not. Now, however, he thinks God reports to him.

Carl L. Bryant
Worthington, Ohio

Your article sounds in part as if it were written by the American Airlines Public Relations Dept. in preparation for contract negotiations—in particular, your saying "the average pilot [will receive] a pay increase of 14% in each of the coming two years."

Our contract gives captains 4% annual increases, and their pay constitutes more than 70% of the pilot payroll. A pilot of a narrow-body who is able to upgrade to a widebody would receive an additional 10% pay increase, but that is hardly "average." The last contract, 1987 to 1989, gave captains 2% annual increases, which meant losing ground to inflation. Those who are co-pilots or flight engineers are getting larger percentage increases, but hardly enough to bring the average up to 14%. In the meantime, Bob Crandall makes close to three times what Delta's CEO takes home, while my Delta counterparts make 33% more.

The long-term cost-benefit balance of the two-tier wage structure is yet to be

determined. A 10% across-the-board wage cut in 1983 would have provided equivalent savings from 1983 to 1990—with the added benefit of providing immediate cost benefits—instead of gradually increasing savings. Working side by side with someone doing the same job for half the salary tends to generate hostility. It is no coincidence that we had "especially bitter negotiations in 1990." As long as AMR management continues to play Divide and Conquer, both between and within employee groups, negotiations will be acrimonious.

David O. Aldrich
Pilot
American Airlines Inc.
St. Charles, Ill.

As a frequent flier (67 flights last year alone), I want to add my comments. Bob Crandall is the problem. I was a devoted American Airlines customer—frequent-flier program, Citibank AAdvantage Visa card, and MCI Communications to get mileage on American, etc. If I flew, it was always on American. But over the past couple of years, Crandall has made it clear to me that I am not a wanted customer.

First, he pulled American out of the Los Angeles-San Francisco route, forcing me to Delta Air Lines. This year, he "lowered" prices through his new pricing schedule. Well, I've got news for you: The new prices are twice as high as I was paying before. I realize the airline business is highly competitive, but we know that all airlines charge the same prices. Crandall has continued to mess up the airline industry, yielding price changes as fruitless efforts. What he needs to do is remember his days at Wharton School—use product differentiation instead of pricing. Bob, do you remember that class?

Neil Ticktin
President
Xplain Corp.
Los Angeles

I found it most ironic that the shareholders of America West Airlines (many of whom are America West employees) were suing American Airlines for predatory pricing. Do America West shareholders have such a short-term

BUSINESS WEEK
AUGUST 3, 1992 ***3277
ISSN 0007-7135

Printed in the U.S.A. except for one issue in January, by McGraw-Hill Inc. Founder James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone (212) 512-2000 Domestic Telex 127960; International Telex: 232365, Cable McGraw-Hill New York, TWX 710-581-4879. U.S. subscription rate \$44.95 per year; 2 years, \$74.95; 3 years, \$99.95. Single copies, \$2.75. Write for rates in other countries Business Week Subscriber Services, 1-800-635-1200.

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Readers Report

memory that they have forgotten that just a little over a year ago it was America West that slashed its prices in half? You didn't see Southwest Airlines whining about predatory pricing.

Howard Ackerman
Long Beach, Calif.

As one who has traveled constantly over the past 25 years, I marvel at the way greed has been used to sacrifice the average traveler's right to fly. American, Delta, and United Airlines typify greed in all its forms. They have not learned the lesson of the past 10 to 15 years: Unbridled, avaricious desire to be the biggest (not necessarily the best) eventually comes full circle. And then, what happens to the American flying public, innocent bystanders in all this craze for growth?

The consequences of any of the present giant airlines' collapsing, as hypothesized in your article, is too traumatic to contemplate. It's time for control, regulation—call it what you will—to halt this headlong rush to possible disaster for the American public.

J. Brendan Swan
Deerfield Beach, Fla.

It should be obvious to everyone why Robert Crandall is playing "commissioner of fares" in today's marketplace. Crandall, along with Delta and United, must get rid of price cutters such as TWA, America West, and Continental Airlines before the two-tier wage structure expires and labor costs soar.

The public will pay dearly for Crandall's visions.

Barry Stompe
Calabasas, Calif.

Perhaps we should ask ourselves how AMR Corp. [American's parent] lost \$280 million in 1990 and 1991 on revenues of \$24.6 billion, while Cathay Pacific Airways, with only 21% the revenues of American, made a profit of \$767 million. Both carriers were dealing with the same problems of high fuel costs, the Mideast war, and a worldwide recession. However, Mr. Crandall is entitled to his outrage at having to compete with carriers that are being kept alive in Chapter 11, using their protected status to lower costs unfairly.

Barbara Cameron Slaton
Menlo Park, Calif.

THE MELTING POT NEEDS A GOOD STIR

In regard to "The immigrants" (Cover Story, July 13), we do have a crisis of values in this country. We no longer value diversity. We fear it. How can we

CORRECTIONS & CLARIFICATIONS

In a table accompanying the story "It's chic to be cheap: A penny-pincher's primer" (Personal Business, July 20), we published an incorrect phone number for the newsletter *The Banker's Secret Bulletin*. The correct number is 914 758-1400.

The R&D Scoreboard (June 29) should have included Legent Corp., which had an R&D expense of \$23.5 million in 1991.

compete in the world when we are fighting ourselves? No one is investing time and money to create a U.S. that is a melting pot again.

As long as our leaders give us soundbite rhetoric that sounds good but that isn't specific, we will be in a state of crisis.

Mark Vaughan
Encinitas, Calif.

PROGRESS FOR THE POOR? THAT'S RICH

Paul Craig Roberts, in "Trickle-down triumph: In the '80s, the poor got ... richer" (Economic Viewpoint, July 13), makes the significant point that during the Reagan years, "the rich got a little richer and the poor got much richer" when tracked on an individual basis. There is no question that Governor Bill Clinton is in error when he claims that "during the 1980s the wealthiest 1% of Americans got 70% of the gains."

It is also clear, however, that the income gap between the lowest and highest quintiles of the U.S. population widened during the 1980s, and this is a matter of concern even if the individuals making up those groups changed during the period. By ignoring this factor, Roberts joins Governor Clinton as someone who is prepared to use statistics "to prove whatever it is that he wants to prove."

Charles V. Sheehan
Highlands, N. C.

PLAIN TALK ON IMMIGRATION

In the article "Immigrants have worlds to offer" (Editorials, July 13), your conclusion—that the "up" of immigration exceeds the "down"—most certainly disregards the issue of illegal immigrants. No one is certain how many there are (probably in the millions), and the majority of them work for substandard wages under the table but pay no taxes.

Nor does it take into consideration

that there are millions of Americans who are functionally illiterate and that dumping even more uneducated people has to be classified as pure insanity. Finally, only an overpaid writer would suggest that the "pain of immigration" is worthwhile. Get real, will you? Or at least label your editorial as "propaganda of the employed."

M. G. Rhoads
Syracuse, N. Y.

Your editorial advocates more federal assistance for bilingual programs. Wrong! A la Andy Grove, I did not get bilingual education but was helped to learn English.

Bilingual education does a disservice to immigrants, especially to the poor. Incidentally, 36 years later I still speak Hungarian, eat the food, and enjoy Liszt.

John G. Adler
Chairman & CEO
Adaptec Inc.
Milpitas, Calif.

WHY HOME-EQUITY LOANS SHOULDN'T BE RESTRICTED

For a progressive business magazine, one whose editorials customarily reflect a refreshing blend of social consciousness with an understanding of business needs and economics, you made a disappointing call for restriction of the use of home-equity loans ("Let's put limits on home-equity loans," Editorials, July 6).

HELs are indeed used for many purposes other than just home improvements or education. Simply put, what is wrong with that? It is a middle-class tool for taking some of the sting out of financing by being able to deduct the interest and having a ready source of (not too-expensive) finance available.

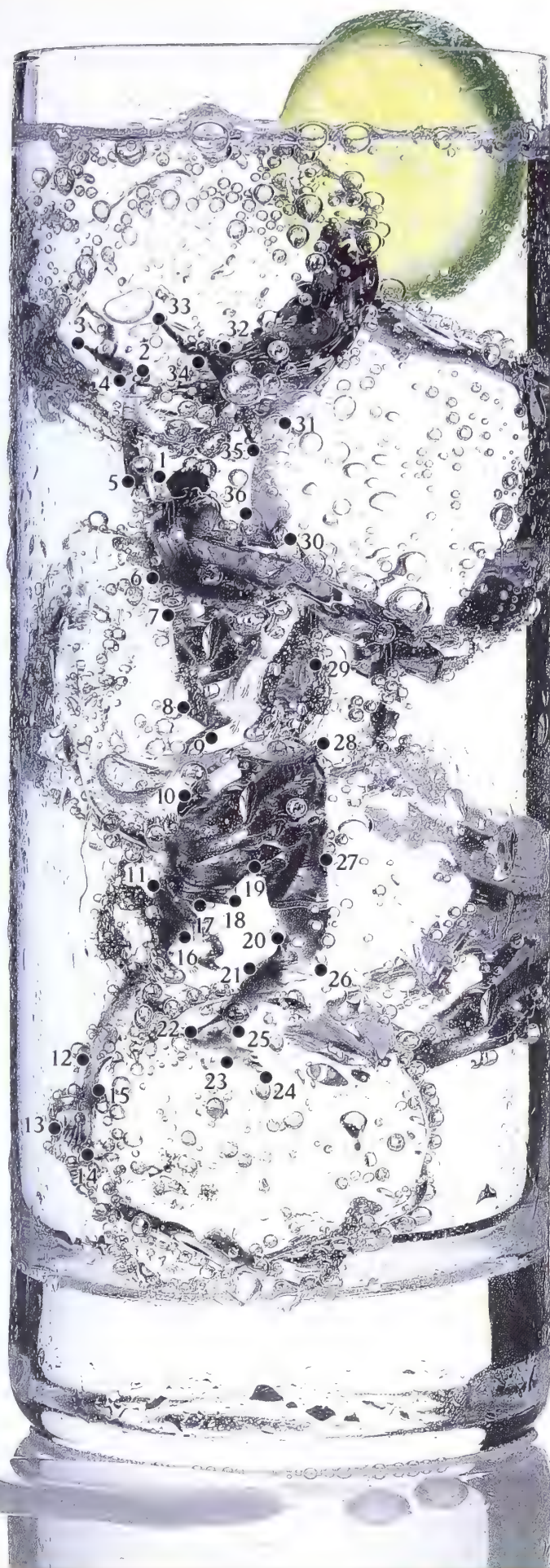
Furthermore, there is no inequity in this type of loan being available only to people who are homeowners. Let us forget, homes are what drive our country's economic machine. The middle class that uses these loans and that buys these houses is in good part responsible for the success or failure of our country's economic life.

There is nothing inequitable about allowing that group ready (and interest deductible) access to the capital it has worked so hard to secure.

Kalman A. Barsion
Bridgewater, N. J.

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ECOCIDE IN THE U.S.S.R.

Murray Feshbach & Alfred Friendly Jr.
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HOW THE SOVIET UNION POISONED ITS OWN WELLS

About 20 years ago, Soviet scientists and engineers, trying to bridge a widening gap between food production and consumption, came up with a chemical process that turned oil-refinery byproducts into animal fodder. Pigs ate the new food with gusto and got fat quicker.

The man-made protein earned its creators numerous awards and job promotions. Valery A. Bykov, director of the huge plant in Kirishi, near St. Petersburg, that pioneered the technique, polevaulted all the way to the Kremlin, where he was made Medical Industry Minister. The trumpeting of the new achievement of Soviet science drowned out the few voices who warned against making an untested product an essential link in the human food chain. Also ignored were warnings about Kirishi's poorly designed exhaust-filtering systems.

Later studies found that meat from the animals fed the fodder is potentially carcinogenic and that polluted air had sent the incidence of asthma and lung cancer around Kirishi zooming.

Poisoned air and dead rivers, dying land and sick people—such is the legacy left by thousands of shortsighted bureaucrats and managers after 74 years of Soviet communist rule. "It is theoretically impossible to live in every seventh [Russian] city," said a top Russian ecologist three years ago. Citizens' groups want to put many of the party's functionaries on trial for failing to deliver the healthy lives promised by every Soviet leader from Joseph Stalin to Yuri Andropov.

Prosecutors would find invaluable help in *Ecocide in the U.S.S.R.* Murray Feshbach and Alfred Friendly Jr. have managed to put together a comprehensive—and shocking—catalog of the damage that the Soviet system has inflicted on man and nature.

Page after page, the litany of horrors goes on: the Aral Sea destroyed by senseless irrigation, groundwater and

rivers in Central Asia poisoned by cotton herbicides, life expectancies in one region after another falling to Third World levels.

But Feshbach, an authority on Soviet health and demographics, and Friendly, a former *Newsweek* Moscow bureau chief, go beyond listing ills to look deep into the causes of ecological suicide and to try to predict whether the present situation can ever be healed.

At the root of the current crisis is the fact that a healthy environment was never counted among the values in the

environmental protection," says Yuri Shcherbak, Ukraine's Environmental Minister and a moving force behind the Ukrainian parliament's decision to shut down the three remaining reactors at the Chernobyl Nuclear Power Station.

Making matters worse, the new republics have widely varying approaches to dealing with ecological problems. In 1989, Russia treated two-thirds of its waste waters, Azerbaijan treated one-fourth, Georgia less than one-fifth, and Armenia, almost none. The river Dniestr, the main source of drinking water for 2.6 million people in the Ukraine, an port of Odessa, carries pesticide runoff from Ukrainian farms to Moldova and from Moldovan farms south again into Ukraine. At a time of growing ethnic paranoia, the chances of conflict over who polluted what seem high.

A final barrier to change is the region's immensely monopolistic corporate structure. Attempts to shut down unsafe chemical plants, for example, have led to immediate and acute shortages of drugs that use ingredients made by these facilities. And closing dangerous nuclear plants would black out vast regions.

Yet unbearable ecological conditions in Kazakhstan, Ukraine, Belarus, Lithuania, Latvia, and parts of Russia have begun to change the mind set that nature should be the servant of the people. A number of former ecotradicals have been placed in power as their initiatives have grown into movements and parties

Already, the authors note, some regions have "begun to move down the long potholed road from protest to reform."

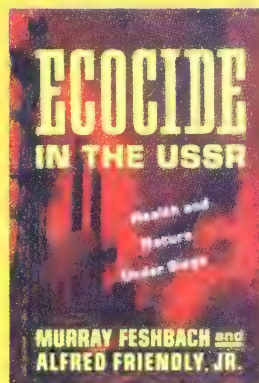
How long is that road? The poisoning of one-sixth of the earth's landmass and hundreds of millions of people was committed by the Soviet system. That system is now on the scrapheap of history and limited reform movements are under way. But that doesn't mean an effective cleanup will take place anytime soon. Detoxification will come hard and at great cost, succeeding only if it becomes a national goal. As a woman from Rostov wrote recently to the weekly *Nedelya*: "We need a mass party that would unite around the issue of healthy environment. It's the only way we can restore our nation."

More calls to arms such as *Ecocide in the U.S.S.R.* should speed the process.

BY IGOR REICHLIN

Reichlin writes for BW from Bonn

Dead rivers, dying land, and sick people—such is the legacy of 74 years of communist rule





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CLINTONOMICS HAS WHAT IT TAKES FOR THE LONG HAUL

BY ROBERT KUTTNER



The Democratic candidate rejects both trickle-down theories and the call for austerity now. Instead, he is proposing cures for the basic building blocks of the economy

Bill Clinton's economic blueprint, "Putting People First: A National Economic Strategy for America," has won grudging praise for its specificity. But a number of commentators have faulted it for downplaying the federal deficit, for raising taxes on the wealthy, for increasing public investment, and for resisting calls to slash entitlements.

In my view, the proposal deserves praise, not condemnation, on all these counts. Economists of different persuasions tell three different stories about how deficits affect the economy. In the first story, shared by Brookings Institution moderates and Wall Street conservatives, large deficits are lethal for the economy because they drive up capital costs and crowd out productive private investment. The only trouble with this story is that the federal deficit is at a 30-year high, while short-term interest rates are at a 30-year low.

NEW FRAMEWORK. In the second story, the neo-Keynesian view, deficits are tolerable and even salutary, at least during recessions. The reason that big deficits don't raise interest rates during recessions is the presence of slack in the economy. A Mar. 30 open letter, signed by more than 100 distinguished economists organized by Yale's James Tobin and MIT's Robert M. Solow, argued for a recovery led by public and private investment, relying on investment tax credits and an increase in direct public outlay. "Since the economy has idle resources... and the threat of inflation is minimal, it is appropriate to let these expenditures add to the deficit, financed by borrowing..." it says.

Nonetheless, most neo-Keynesians believe that once a recovery comes and high employment is reached, high deficits do create competition for scarce capital. At that point, the economy would have to generate increased savings or it would pay the price in the form of higher interest rates, which would deter investment and choke off recovery.

Clinton tells a third story. He shares with the neo-Keynesians a refusal to be intimidated by the deficit. But unlike that of the neo-Keynesians, his view is not primarily a macroeconomic story at all. Rather, it is concerned mainly with structural factors—how effectively each part of the economy works, and how efficiently the pieces fit together. The Clinton blueprint emphasizes the quality of America's labor and capital, the potency of its technology, the state of its infrastructure, and sectoral inefficiencies such as health care.

In effect, Clinton's economic framework represents a turning away from macroeconomics. Thus, he proposes a program of lifetime learning and training to improve the quality of

the work force; a \$50 billion-a-year program of renewed public investment aimed at repairing decayed infrastructure and at stimulating advanced technologies; conversion of defense technology to commercial purposes; targeted tax incentives to promote private investment; and comprehensive health care reform.

Not surprisingly, this approach contrasts radically with the supply-side strategy of the past decade, which claimed that tax breaks for the wealthy would increase savings, investment, and growth. What is more surprising is that the Clinton program also breaks with many assumptions of the neo-Keynesian brain trust, which has advised Democratic candidates since John Kennedy. All of Clinton's senior economics advisers—human-capital expert and business consultant Ira Magaziner, Harvard political economist Robert B. Reich, Occidental College planner and author Derek Shearer, and Robert J. Shapiro of the Progressive Policy Institute—are people who look at the economy structurally rather than in terms of macroeconomic factors, such as deficits. In the structural view, the real story is the quality of the nation's physical and human capital, the organization of its corporations and the way capital markets serve business enterprises. An economy with more efficient inputs will grow faster and cut the deficit.

PARALYSIS. What Clinton has done is to take back the growth issue—and in a novel way that rejects both the supply-side view as well as the austerity view that sees future growth as requiring belt-tightening now. Thus, though Clinton is a centrist on social issues, his economic program is more in the Roosevelt-Truman-Kennedy tradition than those of his party's last three nominees.

Nonetheless, a Clinton Administration would be at risk in three distinct respects. If Clinton is elected, the usual suspects will clamor for influence. He will be warned that structuralists like Magaziner and Reich are not "real" economists and that Democrats must reassure money markets by appointing apostles of austerity. Furthermore, if inflation starts to rise and the stock market falters before January, many financial commentators will see anticipation of a Democratic Administration as the cause. That will only intensify the pressure on Clinton to embrace fiscal orthodoxy.

Clinton's program is primarily a long-term cure for long-term economic problems, not a quick fix. If we get a "triple-dip" recession, Clinton will have to be nimble indeed to deal with a short-term crisis without sacrificing his long-term vision. But that vision is astute and despite the nay-saying, Clinton should hold his course.

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Economic Trends

BY KAREN PENNAR

THE ECONOMISTS' OUIJA BOARDS SPELL 'GEORGE'

Separately, economists and political scientists may not be known for their accuracy at predicting the future, but as a team, there is one thing they have been able to get right almost every time: the outcome of Presidential elections. And what these experts say now is that, despite the sluggish economy and Bill Clinton's 55% post-convention approval rating, George Bush will win.

While the pollsters report large and frequent swings in voter choice, economists and political scientists track the "fundamental values" that determine votes when Election Day rolls around. Primary among these is the state of the economy and the incumbency factor.

HOW THE ECONOMY MAY PLAY IN THE ELECTIONS

If 1992 economic growth is:	The vote for Bush is:	Probability of a Bush victory is:
-1%	50.4%	53%
0	51.6	64
1	52.8	73
2	54.1	81

SOURCE: ALBERTO ALESINA, HARVARD UNIVERSITY; JOHN LONDREGAN, WOODROW WILSON SCHOOL, PRINCETON UNIVERSITY; HOWARD ROSENTHAL, CARNEGIE MELLON UNIVERSITY

It turns out that the economy has to be in awfully poor shape for an incumbent to lose. That was the case in 1980 when gross domestic product per capita fell by 5.9% in the first half, and Jimmy Carter was routed at the polls. Ray Fair of Yale University bases his predictions on the per capita GDP growth rate in the first half of 1992 and the inflation rate for the past two years. Assuming inflation of about 3% and per capita growth of about 2%, Bush would win handily with about a 57% share of the vote. According to Fair's calculations, even if the economy did a triple dip and GDP declined 1%, Bush would still beat Clinton by a slim margin in November.

Calculations based on a model devised by Alberto Alesina of Harvard University, John Londregan of the Woodrow Wilson School at Princeton University, and Howard Rosenthal of Carnegie Mellon University show that growth of about 1% in the current calendar year would yield a 52.8% vote share for Bush,

but because of the margin of error in the calculations, the probability of a Bush win is 73%. The odds rise to 81% if growth comes in at 2% for 1992.

Of course, forecasters like to hedge their bets a bit. Londregan notes that his model would have missed the 1948 win for Harry Truman, and that in 1976 it gave Gerald Ford a 52%-to-48% edge over Carter. Fair cautions that voters might judge economic growth to be poor based on three years of sluggish growth rather than two quarters' worth, and that could work against Bush.

THE CLOSET CAPITALISTS OF RUSSIA AND UKRAINE

Westerners argue that for economic reform to advance in the former Soviet Union, millions of Russians and others who toiled under the grip of a command economy must shake off ingrained prejudices against initiative and shed their distrust of profit-making. The process, some believe, could take a generation or two.

But just how ingrained are these attitudes? Is there in fact a *homo Sovieticus*, whose habits—indeed, whose personality—is so very fixed? No, say three economists who have conducted extensive surveys in Russia and Ukraine. Robert J. Shiller of Yale University, Maxim Boycko of Moscow's Institute of World Economy & International Relations, and Vladimir Korobov of the Kherson Pedagogical Institute in Ukraine questioned people in the U.S., Russia, Ukraine, Germany, and Japan on risk-taking and other issues. Their findings appear in the current *Brookings Papers on Economic Activity*.

Russians and Ukrainians are more inclined to take risks than most observers might expect, the study reports. People surveyed demonstrated a willingness to start new businesses to the same degree as Americans, and their eagerness to invest in other people's ventures was even greater than that of Americans. In Moscow, for instance, 51% said they would be tempted to invest a substantial portion of their savings in a new business started by friends, knowing that the business was very risky and could fail—or make investors rich. In Omsk, a city in western Siberia, 42% indicated an interest in making such investments. In New York, by contrast, the figure was 33%.

Many responses appeared to reflect "situational" rather than "attitudinal" factors. For instance, people in the ex-communist countries concede that workers

do not do quality work—not because they are unable to, but because there is a lack of incentives to do so. If incentives are offered, the authors argue, behavior could change rapidly.

SMALL COMPANIES ARE STILL AFRAID TO ADD WORKERS...

Add another theory to the growing list explaining poor growth in payrolls: Small businesses, which fired up the great American job machine in the 1980s, have been far more timid in their hiring recently. So argues David H. Hale, economist at Kemper Financial Services Inc.

From 1979 to 1989, the U.S. economy created more than 20 million new jobs, but employment at the 500 largest companies fell from 16.2 million to 12.5 million, Hale observes. To date in this recovery, though, there's no indication that small companies are offsetting the continued contraction in jobs at large companies. Indeed, recent surveys indicate that only 17% of small companies plan to hire this year, compared with 19% a year ago and 23% in 1990. Hale suggests several reasons for this: First, continued sluggishness has made small companies extra cautious. Second, small businesses depend on banks, which are constrained by tight lending standards, for credit. Third, exports have rebounded since 1988, but small firms have limited experience in exporting. Finally, says Hale, small businesses may be concerned about costly health care and burdensome federal regulations.

...BUT AT LEAST THEY'RE PAYING THEIR BILLS FASTER

Small companies may also have been suffering from cash flow constraints. Now, business conditions may be looking just a tad brighter: More small companies are managing to pay their bills off faster than before.

According to Dun & Bradstreet Corp., which tracks payment performance, small and medium-sized companies (those with fewer than 500 employees) are faring somewhat better now than as of September, 1991. But the best payment performance of all is coming from companies with more than 500 employees. As of the first quarter, according to D&B, 4% more companies in this group are paying bills at a faster rate than are paying bills at a slower rate.

THE WORD FROM THE FED: THE RECOVERY KEEPS WHEEZING ALONG

When Federal Reserve Board Chairman Alan Greenspan gave his semiannual testimony on July 21 and 22 on the conduct of monetary policy, the congressional committees hurled some pretty tough questions at him. As usual, Greenspan had plenty of answers—some of which were even understandable.

Why is the recovery so anemic, asked the lawmakers? Greenspan said the economy's structural imbalances were more severe and more enduring than previously thought, but that growth will soon gain momentum. Why is the unemployment rate so far above the Fed's forecast of only six months ago? Answer: The growth of the labor force surged well above the pace suggested by the growth of the

working-age population, so both labor force growth and the jobless rate should retreat in coming months.

On the testy subject of money growth: Why has the growth of the M2 measure fallen out of bed? Greenspan blames "disintermediation," the shifting of funds from small-time deposits at banks to higher-yielding investments that are not a part of M2. But isn't slow money growth still a problem for the recovery? Not really. He says that the velocity—or turnover rate—of money is rising, and that money doesn't have to grow as fast.

GREENSPAN DID SOME DEFT TAP DANCING

Greenspan had an answer for everything. Still, his cool and informed responses did not allay the nagging worry that monetary policy has been unable to address the fundamental underperformance of economic growth. Despite the "23 separate easing steps, beginning more than three years ago" that the chairman referred to, economic anemia seems entrenched.

The Commerce Dept.'s report on second-quarter gross domestic product, to be released on July 30, will make that point clear. BUSINESS WEEK estimates that real GDP grew about 1.5% last quarter. That pace would be far below the first quarter's gain of 2.7% and not at all reassuring that a sustainable recovery is under way.

Last quarter's real GDP suffered from a sharp widening in the trade deficit that offset perhaps all of the positive contribution from a pickup in inventory growth. Elsewhere, growth in domestic demand was weak, mainly reflecting puny growth in consumer spending.

Greenspan tried to soothe concerns that the recovery might be petering out. His succor was in the context of the Fed's latest economic forecast (table). The central bank projects that real GDP will grow in the range of 2.25% to 2.75% in 1992, measured from fourth quarter to fourth quarter, and 2.75% to 3% in 1993. Based on second-quarter growth of 1.5%, the Fed's 1992 forecast implies a second-half pickup in growth to 2.5% to 3.5%.

As expected, Greenspan addressed the notion that money growth was too slow to be consistent with the Fed's projections for economic growth. Through early July, the broad M2 measure of money was growing far below the lower bound of the Fed's target range of 2.5% to 6.5%. In fact, for M2 to get back to the midpoint of its target, it would have to grow at an annual rate of 7.5% from now until the end of the year, a pace that hasn't been achieved in nearly three years.

Not to worry, says the chairman. Money is changing hands more rapidly. The velocity of M2 rose appreciably last quarter (chart), and it now stands well above its average level since 1980. Higher velocity is implicit in the Fed's forecast, and Greenspan says that the trend may continue. If so, it will take less money growth to support a given pace of nominal GDP growth—that is, growth not adjusted for inflation.

However, the velocity explanation can only go so far. If money growth continues to be so feeble, especially in the face of weak economic growth, further Fed easing later this year cannot be ruled out.

HOUSING MAY BE A 'COMEBACK KID,' TOO

Greenspan's cautious optimism may not have played well on Capitol Hill, but in his defense, the improving outlook for housing is consistent with a moderately upbeat view of the economy. The plunge in mortgage rates, touched off by the Fed's July 2 cuts in interest rates, will do much to revive this important sector.

Homebuilding ended the second quarter on a sour note. Housing starts fell by 3.2% in June to an annual rate of 1.17 million. Construction of single-family homes dropped 2.4%, while apartment projects, still in a tailspin caused by past overbuilding, dropped 21.4%.

However, homebuilding should get a boost from cheaper mortgages. The average rate on a 30-year fixed mortgage in mid-July dropped to 8.22%—the lowest in 19

THE FED'S LATEST FORECAST

PERCENT CHANGE, FOURTH QUARTER TO FOURTH QUARTER

1992 1993

REAL GDP

2 1/4 to 2 3/4% 2 3/4 to 3%

UNEMPLOYMENT RATE*

7 1/4 to 7 1/2 6 1/2 to 7

*FOURTH QUARTER LEVEL

CONSUMER PRICES

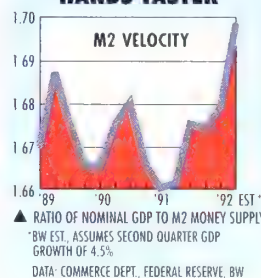
3 to 3 1/2 2 3/4 to 3 1/4

M2 TARGET RANGE

2 1/2 to 6 1/2 2 1/2 to 6 1/2

DATA: FEDERAL RESERVE BOARD

MONEY IS CHANGING HANDS FASTER

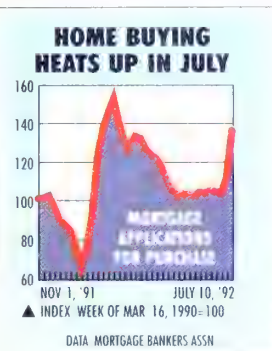


Business Outlook

years. One-year adjustable rates, at 5.36%, are at the lowest since they came into existence a decade ago.

Little wonder, then, that mortgage lenders were burning the midnight oil last month. According to the Mortgage Bankers Assn., loan applications for home purchases surged 30.8% in the two weeks ended July 10.

The MBA's index of applications for home purchases is now at its highest since January, when the Fed's big easing move in December also caused a surge in home buying (chart). Because it takes about 60 days for a mortgage to be approved, this rise in mortgage applications will likely cause an increase in the government's data on home sales in August and September.



"disturbingly high," blaming inflation fears generated by federal budget deficits projected into the mid-1990s. Some relief may be on the way, though.

Based on data through June, when the Treasury posted a small surplus of \$3.8 billion, the deficit for fiscal 1992 now seems likely to end up in the range of \$300 billion to \$315 billion, far below the feared \$400 billion mark. A slower pace of spending by Resolution Trust Corp. for the thrift-industry bailout is the reason for the lower 1992 deficit, although red ink will run heavier in 1993 as RTC spending picks up again.

For now, though, the smaller 1992 deficit means that the Treasury's third-quarter borrowing will be about \$90

billion—only half of the IOUs implied by a \$400 billion deficit. The combination of less Treasury borrowing, a slow recovery, and low inflation could produce lower long-term rates this summer. That would give housing an additional lift and provide further help for debt-strapped households to repair their balance sheets.

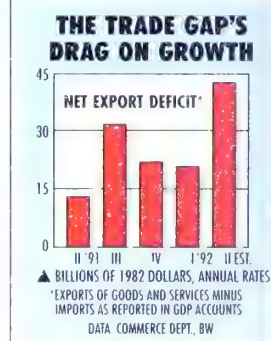
ONE DARK CLOUD FROM ABROAD

Greenspan made little mention of foreign trade in his testimony—perhaps because it is turning out to be such a dark cloud over the outlook. Slower growth in other countries is hampering U.S. exports (page 20), while the recovery at home is increasing demand for imports.

As a result, the merchandise trade gap is deteriorating. In May, the deficit widened to \$7.4 billion, from \$7.1 billion in April. Exports dropped for the third consecutive month, falling 2.5% to \$35.5 billion. Imports also fell, but by a smaller 1.4%, after rising in March and April. During the past year, imports are up 7.2%, compared with last May, when they were falling 1.5%.

The wider trade gap suggests that foreign trade was a huge drag on the economy last quarter. After adjusting for price changes, the GDP measure of foreign trade—net exports—will likely show a doubling in the deficit in the second quarter (chart). That deterioration would subtract almost two percentage points from the quarter's annual rate of growth.

Sagging foreign trade is only one of the problems facing the recovery. If you take Chairman Greenspan at his word, none of the existing troubles is too overwhelming for the economy to handle. But Greenspan would undoubtedly admit that the task of mollifying Congress is a lot easier than keeping the recovery on track.



THE WEEK AHEAD

EMPLOYMENT COSTS

Tuesday, July 28, 8:30 a.m.

Employment costs for civilian workers probably rose by about 0.8% in the second quarter, say economists polled by MMS International, a division of McGraw-Hill Inc. In the first quarter, compensation was up by 0.9%. The expected mild increase would place second-quarter labor costs just 3.4% above their pace of a year earlier. As in the past, increases in benefits last quarter continued to outpace the gains in wages.

CONSUMER CONFIDENCE

Tuesday, July 28, 10 a.m.

The Conference Board's index of consumer confidence likely slipped to 70 in

July, from 71.7 in June. Blame it more on the election than on the economy—although June's jump in the unemployment rate to 7.8% also raised jitters.

GROSS DOMESTIC PRODUCT

Thursday, July 30, 8:30 a.m.

The MMS consensus expects that the economy grew at a sluggish 1.8% annual rate in the second quarter, after rising at a more respectable 2.7% clip in the first. The sharp deterioration in the foreign-trade sector, however, argues that the economy may have grown even slower last quarter. The economists also expect that inflation, as measured by the GDP price deflator, stood at a 3% annual rate in the second quarter, down from 3.1% in the first.

NEW SINGLE-FAMILY HOME SALES

Thursday, July 30, 10 a.m.

New homes likely sold at a 523,000 annual rate in June, up from 501,000 in May.

PERSONAL INCOME

Friday, July 31, 10 a.m.

Personal income was probably flat in June, following a 0.3% gain in May. Declines in jobs and weekly pay suggest wages and salaries were weak. Consumer spending likely rose by 0.4% in June after a 0.5% increase in May.

FACTORY INVENTORIES

Friday, July 31, 10 a.m.

Manufacturing inventories probably rose by 0.3% in June, the same as in May.

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EXPORTS GO Pffft

AS GLOBAL GROWTH WANES, U.S. SHIPMENTS SHRINK

One of the few heartening aspects of the U.S. economy in recent years has been the nation's surging growth in exports. As spending by consumers and investment by business dwindled, double-digit jumps in exports during the late 1980s gave American business a rush so real it seemed almost addictive.

No question, a persistently weak dollar has helped American-made products sell in Europe and Japan. And falling import barriers opened Latin America to a deluge of U.S. goods. But whatever the reasons, when the U.S. economy sank into its recessionary double dip last year, a 6.4% expansion in exports cushioned the fall. It even set economists to jabbering about an export-led recovery.

COLD TURKEY. But now, America is going through what could be a nasty case of withdrawal. As economic growth rates in Japan and Europe head into the tank, the American export boom is winding down. The latest evidence: On July 17, the Commerce Dept. announced that the merchandise trade deficit in May widened 4.5%, to \$7.38 billion. Despite a dollar so weak that central bankers of many nations on July 20 were forced to rush to its rescue, exports declined 2.5% in May, to \$35.5 billion. That's a 5.8% fall from February, when 1992 merchandise exports peaked at \$37.7 billion. Exports of goods and services are expected to grow only 5% this year.

The upshot? At a time when Americans are watching pennies ever so closely and businesses are loath to make new investments, economists and executives are worried that anemic exports may slam the brakes on an already sluggish recovery. Asks Lester C. Thurow, dean of Massachusetts Institute of Technol-

ogy's Sloan School of Management: "Where will the jump start come from?"

That's what corporate executives in industries ranging from heavy equipment to chicken farms are wondering. Caterpillar Inc., to take one example, is having trouble hawking its heavy construction equipment overseas. Poultry giant Tyson Foods Inc. also has lost foreign sales. Computer companies including IBM and Digital Equipment Corp. have seen once-soaring overseas sales stagnate. Says Jeff A. Werner, senior vice-president at Dallas-based Chaparral Steel Co., whose overseas sales have fallen to 3% of total revenues from a peak of 10%: "The turndown has been steep."

No industry has been hit harder than aircraft, once America's big bully boy on the export front. Civilian aircraft shipments account for 60% of the export decline since February. Now, Seattle-based aircraft manufacturer Boeing Co. is taking a few blows, getting pummeled by European rival Airbus Industrie. Gone are the days when Boeing could prop up U.S. export figures by shipping its widebody planes around the world. Beyond competition

from Airbus, Howard A. Rubel, an aircraft industry analyst with C.J. Lawrence Inc., notes that a key reason for the recent softness in Boeing's exports is simply that aircraft demand has peaked. Rubel says Boeing will ship about 50 of its 747 widebody jets this year, compared with 59 in 1991. Boeing suggests that May's sharp drop was an aberration. "There's plenty of room to grow," says a spokesman.

Probably the single biggest culprit for the easing in exports is slower economic growth abroad. Japan's economy is expected to expand only 2.5% this year, in the estimate of Long-Term Credit Bank

Economists and executives worry that anemic exports may slam the brakes on a sluggish recovery. One expert asks: 'Where will the jump start come from?'

**THE DOLLAR'S
DECLINE ISN'T
HELPING EXPORTS**



LONELY CARGO: SALES OF CATERPILLAR EQUIPMENT TO EUROPE AND JAPAN ARE DOWN SHARPLY

of Japan economist Masahide Tsuru. That's down from 4% last year and 5.7% in 1990. As a result, U.S. exports to Japan declined 4% during the first five months of the year. Especially hard hit are wood, aluminum, and semiconductors. In Europe, it's the same story, says 3M corporate economist John McDevitt. The slowing of U.S. exports to the Continent, he notes, is directly related to the sluggish economic growth there of around 1.5%.

Germany's tight monetary policy isn't helping matters, either. On July 16, the Bundesbank, citing inflationary pressures, hiked its discount rate to 8.75%.



from 8% (page 34). More expensive borrowing should further dampen Germany's appetite for U.S. manufactured goods, especially such big-ticket items as construction equipment. Annette Fuhr, an economist at the German Industry & Trade Chamber in Bonn, estimates that American exports to Germany will grow 5% this year, a sharp drop from last year's 16% rise.

At the same time, Japanese companies are trying to export their way out of a recession, stiffening competition for U.S. exporters in Asian markets. Japan's worldwide trade surplus hit a record high of \$49 billion during the first

half of this year, up more than 50% from last year. Tenneco Automotive President John P. Reilly, says Japanese rivals have begun challenging the auto parts supplier in Southeast Asia, where it controls as much as 50% of the market for shock absorbers. To make inroads, he says, the Japanese have slashed prices 15% and cut margins in half to 10%. Tenneco has responded by chopping its prices. Vows Reilly: "We're not going to give up any market share."

But other companies haven't been able to use price cuts to hang on to their piece of the international market. At Caterpillar Inc., for example, second-

quarter foreign sales, more than half of them exported from the U.S., fell 13%, to \$1.35 billion. Industrywide sales of the company's construction equipment are off more than 30% in Japan and 10% in Europe, reckons Smith Barney, Harris Upham & Co. industry analyst Tobias Levkovich. Donald V. Fites, Caterpillar's chairman, puts it plainly: "We have a demand problem."

And it's not just the big, old-line manufacturers who are hurting. Novellus Systems Inc., the San Jose (Calif.) manufacturer of computer chipmaking gear, saw first-half profits fall 49%, to \$4.2 million, on a sales decline of 7%, to \$36.1 million. Sales to Japanese companies, which last year made up 35% of revenues, are off by 40% this year. And although the company is boosting marketing efforts in Japan, it doesn't expect a rebound soon. Says Chief Financial Officer Gary Harmon: "They're going to have to ride out their own recession" before Novellus sees new business.

LATIN CUSHION. There's precious little the U.S. government can do. The dollar already has plummeted against the yen and the German mark (chart). Further depreciation, amid weak demand overseas, is unlikely to help. "American suppliers are cost-competitive at this level," says Tenneco's Reilly.

Federal Reserve Chairman Alan Greenspan was peppered with questions on the sluggish economy and the falling dollar when testifying on July 21 before a Senate panel (page 22). But Greenspan remained resolute: "I certainly see no benefit to the U.S. economy from depreciating the dollar at this time."

Optimists see some bright spots. Forecasters think European and Japanese growth rates will pick up by next year. "The good news is that U.S. goods are incredibly cheap overseas," says economic forecaster Laurence H. Meyer. When foreign markets eventually pick up, he argues, U.S. exporters will be well placed. That's true at Caterpillar, which faces no strong European rival for its biggest construction gear and recently boosted its dealer network there.

Meantime, U.S. companies are counting on developing countries to cushion sinking demand elsewhere. Mexico, for example, is expected to grow 3% this year, making it an appealing market for U.S. exporters. Truckmaker Freightliner Corp. says its sales to Mexico will jump 25% in 1992 to \$100 million, up from zero three years ago. But the promise of more exports in Latin America tomorrow is doing too little for the American economy today.

By Kevin Kelly in Chicago, with Michael J. Mandel in New York, and bureau reports

Commentary/by Mike McNamee

MEMO TO DEMOCRATS: READ ALAN'S LIPS

Twice a year, the chairman of the Federal Reserve does battle with Capitol Hill as the central bank reports on its handling of the economy. It's hardly a fair contest. Alan Greenspan spends most of his waking hours thinking about the economy and the Fed. The typical senator or representative snatches up a handful of newspaper clippings and staff-written questions on his way to the hearing, then forgets the questions when the cameras' red lights ignite his urge to make a speech instead. Little wonder that Greenspan, like his predecessors, has largely cowed his nominal overseers in Congress.

This summer's hearings, however, were supposed to be different. The economy is mired in a sluggish recovery. The most politically sensitive barometer, the unemployment rate, shot up to 7.8% in June. And Democrats on the Senate Banking Committee came to their July 21 inquisition loaded with quotes from Greenspan's earlier optimistic testimony, examples of Fed forecasting mistakes, and a burning urge to pin the Fed chairman to the wall.

DUMB POLITICS. They still couldn't win. Not because Greenspan's record is spotless. His Fed has consistently misjudged the undertow of debt tugging on the economy. Greenspan denied the existence of a credit crunch for months after New England banks quit lending, then embraced it as his own recessionary poster child. The Fed cut short-term interest rates often—23 times in three years—but usually in steps too tiny to affect the markets. Even Greenspan's supporters inside the Fed balk at his claim that the central bank couldn't have shown more leadership for fear of sending long-term rates soaring.

But the lawmakers failed to score, largely because of their own myopia. Senator Paul S. Sarbanes (D-Md.) spent more than a half hour hammering Greenspan for the Fed's failure to predict the unemployment rate's sharp summer spike. But that's a forecasting error, not a policy mistake. If Sarbanes wanted to nail



GREENSPAN: SLOW GROWTH IS TIED TO RECORD DEFICITS

Greenspan, he should have asked about the Fed's consistent failure to deliver even the modest money-supply growth that it has promised (chart). That question, however, barely arose.

In four hours of grilling, the senators never got to the key issue: Should the Fed be trying to boost the economy in the short run—i.e., before November—or pursuing Greenspan's long-view goal of bringing down inflation? There aren't many on Capitol Hill who believe that long-term price stability is worth the pain of 10 million jobless Americans. But Senate Banking Chairman Donald W. Riegle Jr. (D-Mich.), who now criticizes Greenspan's inflation fight, led the Democrats in voting unanimously just last February to recommend Greenspan for a second four-year term at the Fed's helm.

The Democrats' frustration over the economy is obvious, but their reaction wasn't even smart politics. This year's big contest isn't Don Riegle vs. Alan Greenspan. It's Bill Clinton vs. George Bush. The President's woeful economic record—a 0.9% annual growth rate over 3½ years—is Clinton's best weapon, and Capitol Hill Democrats should hammer that point home. But the Fed chairman makes a poor proxy for Bush. For all his failings, Greenspan has done more than the "Message: I care" President to boost the economy.

'VIRTUALLY IMPOTENT.' If lawmakers had paid more attention, they would have heard lifelong Republican Greenspan make the thinking Democrat's case against Bush. Today's malaise, he said, is the direct result of the deficit-

and debt-fueled boom of the Reagan-Bush years. "The way we got here," Greenspan reminded them, "was by producing record budget deficits during periods of growth and expansion." Like the government, consumers and businesses built up towering debts in the 1980s. Now, they're too busy paying old bills to do any new spending.

The 1980s created "a type of characteristic in the economy that we haven't seen since World War II," Greenspan said. The burden of this "balance-sheet recession" not only ruled out tax cuts and spending stimulus, he added, but also nearly neutralized the Fed's rate cuts. In short, Washington has been "virtually impotent" to repair the world's largest economy. Shades of Herbert Hoover.

Democrats have trouble embracing

Greenspan's argument, thanks to their own role in building up the 1980s deficits. But the tilts with Greenspan raise serious doubts about the out-of-office party's economic credentials. Capitol Hill's weak oversight of the Fed is nothing new—but it's especially worrisome after two long years of recession and weak recovery. If Democrats can't score points against the Fed's policies now, what case can they make that they'll do a better job if they're put in charge?



WHERE PEROT'S CHIPS MAY FALL

For Clinton, the South is shakier, but he has a shot in places he didn't

Against the counsel of many of his advisers, Bill Clinton decided to keep his Presidential campaign headquarters in Little Rock. Perhaps Battle Creek, Mich., would have been a better choice.

Thanks to the abrupt end of Ross Perot's candidacy, Clinton will be forced to spend a lot less time in his native South and a lot more touring the Rust Belt. Democrats had counted on Perot to strip votes from President Bush, allowing Clinton to carry states in the South and West. Now, Clinton, who casts his candidacy as a break from the Democratic past, must dust off a more traditional Democratic battle plan that relies on the Rust Belt and California.

That's a fight Republicans relish. "Clinton's people were preparing for a three-dimensional chess game. Now, the game is boxing," says GOP consultant Jay Severin III. "This is a game we know how to win."

But knowing how to win isn't the same as winning. Although Clinton's post-convention surge in the polls will subside, Republicans were taken aback

by the Democrat's 29-point lead in the latest *Washington Post*/ABC News poll. Even more disturbing was evidence that up to two-thirds of Perot voters were leaning toward Clinton. Still, the calcu-



In a recent poll, two-thirds of Perot's backers favored Clinton.

But the calculus of the Electoral College favors the Republicans

lus of the Electoral College favors the Republicans because GOP strength in the Sunbelt gives the party a leg up on the 270 electoral votes needed for victory.

A BUSINESS WEEK analysis suggests that once the Clinton balloon deflates a bit, Bush has the edge in states with a total of 263 electoral votes. Clinton has the inside track on 233 votes, and 42 more are toss-ups. "The Clinton people

are keenly aware that it's a tough race," says Democratic consultant Wendy Sherman. "They don't have any illusions that this is a cakewalk."

The GOP is giving Clinton a taste of things to come with assaults ranging from charges that his proposed tax hikes on the wealthy will soon hit middle-class voters to innuendoes about his ties to homosexual activists. Their immediate goal: peel away the Perot supporters who have flocked to Clinton's banner.

Perot's departure alters the campaign outlook by putting some states into play for Clinton that otherwise would have been beyond his reach, while moving other states firmly into the Bush camp. A tour of the regions:

■ **The South.** It's nearest to home that Perot's withdrawal hurts Clinton the most. The Arkansas governor had hoped to eke out narrow victories with the solid backing of blacks and pro-choice women while Bush and Perot split the white male vote. "With Perot skimming the cream off the Republican vote, Clinton had a real opportunity to take the South," says Democratic consultant Raymond D. Strother. Now, Clinton has only an outside shot at Texas and virtually no chance in Florida.

■ **The West Coast.** California, Oregon, and Washington remain hostile territory for Bush. Clinton's stock has soared since he chose environmentalist Al Gore as his running mate. And at least for the time being, Clinton appears to have inherited many of Perot's independent-leaning and suburban supporters.

■ **The Rocky Mountain States.** What was



once Perot's strongest region is now a Bush bastion. Clinton could snare Colorado and New Mexico, with their large Latino populations, but elsewhere, prospects look bleak.

■ **The Northeast.** Post-convention polls show Clinton getting his biggest boost in this traditionally Democratic region. Perot's departure clearly helps Clinton in New York and Pennsylvania. But Bush gains in New Jersey, which hasn't voted Democratic in a Presidential election since 1964.

■ **The Industrial Midwest.** Clinton is counting on a weak economy for victory here. Republicans hope to turn Gore's environmentalism into a liability, arguing that his policies would cripple automotive and other manufacturing jobs. Says Democratic pollster Anna Bennett: "It's going to be a real shoot-out to the end."

The importance of the Rust Belt was reflected in the itinerary for Clinton's post-convention bus tour through Middle America: New Jersey, Pennsylvania, West Virginia, Ohio, Kentucky, Indiana, Illinois, and Missouri. Bush countered by scheduling lightning visits to four of the same states. As Republican pollster Linda DiVall puts it: "You can go back to the old political maps, and you know what the key states are." The large crowds that greeted Clinton and Gore gave their campaign a big lift. Bush's visits to New Jersey and Pennsylvania seemed listless in comparison.

While Democrats and Republicans plot strategy, Perot hovers as a specter over the contest, with his name on the ballot in at least 34 states. No one is sure what impact the timid Texan could have on the final results, but most experts believe that if Perot garners 2% of the vote as a protest, most would come from one-time Reagan-Bush backers. "There are people who would never vote for a Democrat but who might cast a protest vote," says George Washington University political scientist Christopher F. Arterton. "It's most likely to come out of Bush's hide."

Clinton stands to gain from residual Perot nostalgia in states such as Montana and North Dakota, where the independent had been strong. But in a close race, he'll get the biggest boost in large battleground states, such as California, Michigan, and Illinois, where even a small protest vote might be enough to swing the result Clinton's way. It's a long shot, of course, but it's the best way to explain why Clinton is mentioning Perot's name every chance he gets as he barnstorms across America in search of a way to break the GOP's electoral grip.

By Richard S. Dunham in Washington

INVESTIGATIONS

DID SEARS TAKE OTHER CUSTOMERS FOR A RIDE?

Employees say overselling wasn't confined to auto centers

Just months ago, Michael J. Stumpf was a walking advertisement for Sears Roebuck & Co. "We had an all-American relationship with Sears," said Stumpf, a 32-year-old industrial video producer, at a July 21 Senate subcommittee hearing looking into auto fraud. But when his fiancée brought their 1987 Ford to a Sears Automotive Center for an advertised \$89.99 strut job, she ended up with a \$650 repair bill instead. Fumes Stumpf: "Trust shaken is not easily gained back."

Stories like Stumpf's are beginning to sound familiar as investigations into sales abuses at Sears' auto centers continue. What has not been revealed is that the same pressures that may have led to abuses in the auto centers exist in other areas of Sears' vast empire. Interviews with 18 current and former auto employees, major-appliance salespeople, and Allstate Insurance agents all reveal an atmosphere in which employees feared getting fired if they didn't meet sales quotas. Some even say they felt pressured to cheat to keep their jobs.

Sears' top executives say they never knowingly approved or endorsed such practices and dismiss such talk as anecdotal evidence from a few disgruntled employees. "There is a distinct possibility that there are people managing that

way out there," says Forrest R. "Woody" Haselton, who became the auto group's head in 1989 and was promoted to president of the \$31 billion Sears Merchandise Group in January. "But it is not systemic. And when we find it, we react against the people who are managing that way."

Last month, Sears Chairman Edward A. Brennan strongly asserted that, based on a 12-day internal investigation, no systemic problem led to cheating in the auto centers. "Isolated errors? Yes," he conceded. "But a pattern of misconduct? Absolutely not." Nevertheless, Brennan scrapped commissions and product-specific sales goals for auto center employees nationwide.

'TOTALLY INEVITABLE.' Government investigators, law enforcement officials, and private attorneys representing former Sears auto center employees contend that such policies add up to systemic fraud. "There was a deliberate decision by Sears management to set up a structure that made it totally inevitable that the consumer would be oversold," charges Roy Liebman, a deputy Attorney General in California.

Of course, commissions and quotas are a routine part of the retail business. But at the auto centers, management checks designed to prevent overselling



IN BAD HANDS: LARRY MELODY SAYS ALLSTATE FIRED HIM FOR NOT MEETING SALES QUOTAS

SEARS' THREE-YEAR PRESSURE COOKER

1990

Sears announces a 40% drop in earnings and a \$155 million write-off

Net income for Sears' merchandise group, which includes auto centers and appliance sales, drops 60%

Sears standardizes compensation for service employees nationwide, introducing commissions and by-the-job pay rate in some areas

1991

Contrary to existing corporate policy, Sears sets tough production goals for state agents whose jobs are in jeopardy. Some are fired for missing sales targets

may have been missing. And since the same policies exist in other Sears' divisions, management oversight may be lacking in those areas, too. In March, Sears changed the pay structure for its retail salespeople, cutting base salaries and emphasizing commissions instead. At the same time, the company may have pushed employees too hard to sell maintenance agreements on big-ticket appliances. These agreements generate up to 50% of annual store earnings, some employees say, and can cost more than 35% of the appliance's value.

One 30-year Sears salesman in Sacramento, who retired in February, says he received more than a dozen letters from his manager over the past two years stating that he would be fired if he didn't boost the number of agreements he sold. "An unhappy salesman who figures he's been shafted is going to shaft someone else," he says. Ruth Kaylor, a saleswoman in Sears' Vernon Hills (Ill.) store, agrees: "The pressure is much greater today than it used to be."

NO QUOTAS. Allstate agents also say they've come under pressure since 1989 to write more policies. The Sears subsidiary got rid of production quotas several years ago because of concerns that they would force agents to cut corners, say several agents, and Allstate's vice-president for corporate relations, Kevin Sullivan, says they are not used. Yet in re-

cent months, some agents say they've been fired for not meeting sales quotas.

One is Lawrence R. Melody, who joined Allstate as an agent working in a booth in a Florida Sears store in 1986. He says that although the amount of money Sears paid on his clients' claims was well below the company average, he was terminated this month for low production. Instead of selling \$12,093 worth



CEO BRENNAN: "A PATTERN OF MISCONDUCT? ABSOLUTELY NOT"

of personal property insurance in four months, Melody sold \$10,760. Similarly, Clifton W. Weller III, a Baltimore agent who joined Allstate in late 1990, says he was fired for not meeting a \$600 monthly quota for life insurance premiums. He has filed a complaint with Maryland regulators, charging that his manager pressured him to ignore underwriting guidelines to close a sale. Allstate's Sullivan says it's company policy not to comment on "specific employee matters."

Allstate agents nationwide are concerned about reports of a number of agents who have received official warnings in recent months that if they don't bring in a certain amount of premiums, they'll lose their jobs. Says Jim Cason, president of an Allstate agents group: "If the reports are true, I honestly believe it's bottom-line management at its worst."

What has gone wrong at a company that was once one of the nation's most enlightened employers? The answer may be as simple as profit pressure (table).

District and regional heads are competing against one another to rack up the biggest profit gains—and keep their jobs.

Some of those managers, suggests a former top Sears executive, may have become overzealous in pushing sales performance. "We talked about the pressure, pressure, pressure to get the dollars," says Jerry C. Waddy, who worked in Sears' San Bruno (Calif.) store before he was fired, he says, for not meeting his quota of 16 oil changes a day. Waddy says that on the advice of his manager he started cheating in the final week to try to save his job. He's now seeking \$1 million from Sears in a wrongful discharge suit. Sears spokesman Gerald E. Buldak says the company is taking the charges "very seriously."

BETRAYED TRUST. Haselton and others maintain they've built checks into the system, such as shopping audits and customer response cards, that help prevent overselling. But Sears will probably have to explain all this in court. Although it settled charges with New Jersey on June 21 by agreeing to pay \$200,000 to the National Association of Attorneys General for an auto repair industry reform fund, California, Florida, and Alabama are continuing their investigations. Sears General Counsel David Shute says that at least a dozen auto-related class actions have been filed.

And what about such once loyal customers as Michael Stumpf and his fiancée, Jane Doyle? "I won't go to a Sears auto center again," vows Doyle. It may not be long before Sears hears the same bitter words from appliance and insurance customers, too.

By Julia Flynn in Chicago, with Christina Del Valle in Washington and Russell Mitchell in San Francisco

current and former agents. Sears says agents are fired solely for poor production. Appliance salespeople say they are under increasing pressure to sell maintenance agreements. Consumer complaints at Sears auto centers jump 64% in 1989.

1992

Nationwide auto center sales drop 15%. California alleges massive consumer fraud. New Jersey, Florida, and Alabama file their own investigations. At least a dozen class actions are filed.

Admitting that "mistakes did occur," Sears CEO Edward A. Brennan scraps production commissions for auto center employees. Senate subcommittee holds hearings on Sears scandal.

DATA: BW, CALIFORNIA CONSUMER AFFAIRS DEPT.



JACKED-UP BILLS: THERE WAS "PRESSURE, PRESSURE, PRESSURE, TO GET THE DOLLARS"

Top of the News

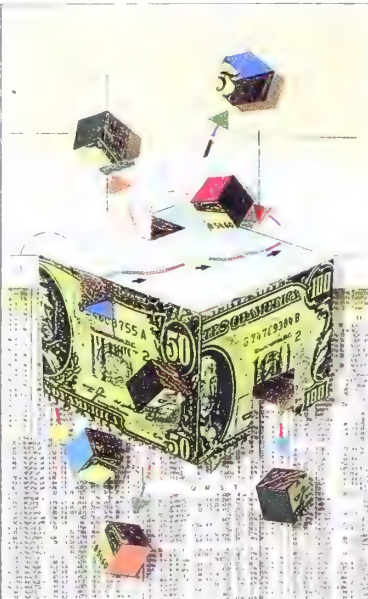
CORPORATE PROFITS

A SNEAK PEEK AT THE SECOND QUARTER

The early results are in—and BW's new listings are user-friendlier

Quarter by quarter, the game for investors remains the same: Try to forecast corporate profits well enough that your winning stocks outnumber losers. Often, there's a vast gulf between trying and succeeding. But all told, as BUSINESS WEEK's flash report on second-quarter corporate profits shows, Wall Street analysts seem to have made pretty fair estimates of the quarterly results.

BW has revised its quarterly flash-profits report to offer readers a fuller and faster understanding of corporate earnings news—and the implications for investors. In past reports, along with sales and earnings, we noted companies' net profit margins. Since that's a figure readers can reckon for themselves simply by dividing net profits into sales, we're now adding more information to the table by supplanting the net margin data with three new columns. The first lists Wall Street's con-



sensus estimate (as of the Thursday preceding the quarter's close) of each company's earnings per share. The next lists the earnings per share each company actually posted. The final column shows the difference in dollars and cents. This way, readers can tell at a glance which companies met or dashed the market's expectations.

A PENNY HERE. We've also divided the flash report by general categories: industrials, services, technology, and utilities and telecommunications. And we've reckoned composites for each group's performance, the better to judge individual companies against. The composites show that earnings surprises were few this quarter: Industrial companies, for instance, came in just three cents below forecasts, while service firms did a penny better than expected. But specific cases—check AMR Corp. and Texas Instruments Inc., to name two—held lots to shock and delight investors.

earnings had dropped 72% from the prior year. Among those who had apparently lost faith: Chairman Finis F. Conner, who has sold 350,000 Conner Peripherals Inc. shares, or about 22% of his stake, since the first of the year.

But 1992 is a different story. When PC makers began slashing prices in the spring, customers started buying more powerful computers. Result: Demand for larger disk drives surged, and Conner saw its second-quarter earnings rebound 72% from a year ago, to \$46 million. Revenues gained 36%, to \$551 million. Conner predicts that "some of these changes are going to yield very long-term positive results."

RIGHT ON TOP. Those changes have been fast and dramatic. PC prices dropped as much as 40% from June, 1991, to June, 1992, according to International Data Corp., with major players such as Compaq Computer Corp. offering machines

CORPORATE PROFITS

THE PC WAR WINNERS

As PC makers bash one another, PC parts makers are getting rich

There's an upside to the personal-computer price wars—and not just for customers. As PC vendors slash prices and their own profit margins, prices of some disk drives, chips, and software are holding firm while volumes surge. That means fat profits for component makers with the right products.

One of the major beneficiaries is Conner Peripherals Inc. (table). Last year, the maker of premium disk drives looked like just another fallen star. Fourth-quarter revenues were running flat, and

	Current qtr. sales
INDUSTRIALS 95,277.3	
ABBOTT LABORATORIES	1,908.7
ALCOA	2,406.1
AMERICAN HOME PRODUCTS	1,756.2
AMOCO	7,370.0
ANHEUSER-BUSCH	3,382.4
BRISTOL-MYERS SQUIBB	2,880.4
CATERPILLAR	2,600.0
CINCINNATI MILACRON	185.6
COCA-COLA	3,550.4
COLGATE-PALMOLIVE	1,799.6
CORNING	926.7
GENERAL DYNAMICS	1,609.0
GENERAL ELECTRIC	15,400.0
GEORGIA-PACIFIC	3,046.0
GILLETTE	1,198.9
INTERNATIONAL PAPER	3,400.0
JOHNSON & JOHNSON	3,413.0
KELLOGG	1,584.0
LILLY (ELI)	1,478.3
LOCKHEED	2,480.0
MAYTAG	770.1
MERCK	2,373.6
NORTHROP	1,441.8
OWENS-CORNING	732.0
PEPSICO	5,210.8
PHILIP MORRIS	12,935.0
SCHLUMBERGER	1,553.2
UNION CARBIDE	1,257.0
UNITED TECHNOLOGIES	5,736.0
UPJOHN	892.5
SERVICES 39,406.2	
AMR	3,587.0
CAPITAL CITIES/ABC	1,391.3
CBS	780.6
CHASE MANHATTAN	NA
CHEMICAL BANKING	NA
CITICORP	NA
CONRAIL	843.0
KROGER	5,072.2
MARRIOTT	2,036.0
MCGRAW-HILL	484.3
MERRILL LYNCH	3,356.3
MORGAN (J. P.)	NA

for less than \$1,000. Even IBM joined the fray, cutting its prices up to 30% on its PS/2 line on July 21.

Consumers are clearly happy. PC retailer ComputerLand Corp. reports that its unit sales soared 45% from May to June. And the trend should continue: IDC now predicts that U.S. PC sales will rise 8% in 1992, up from the 4.7% gain projected earlier in the year.

That translates into profits for Conner and rival drivemakers Seagate Technology Inc. and Maxtor Corp. All three started 1991 swimming in unsold inventory. This year, their big problem is meeting demand. "The computer industry just went gangbusters," says Al F. Shugart, CEO of Seagate, which went from a \$47.8 million loss for the quarter ended last Sept. 30 to a \$59.3 million profit for the fiscal fourth quarter ended June 30. Maxtor turned a profit of \$28 million for the quarter ended June 2

Current EPS	% chg.	Est. EPS (6/25)	Reported EPS	Diff.
3.9	+9	0.77	0.74	-0.03
7.1	+18	0.36	0.37	+0.01
9.6	-76	0.76	0.22	-0.54
6.1	+12	0.95	0.94	-0.01
7.0	-23	0.59	0.48	-0.11
7.2	+11	1.10	1.10	—
8.0	0	1.01	0.94	-0.07
3.0	NM	-0.08	-0.52	-0.44
2.8	NM	0.10	0.10	—
1.0	+20	0.44	0.44	—
4.4	+33	0.74	0.75	+0.01
1.8	-3	0.47	0.38	-0.09
5.0	-62	1.77	1.54	-0.23
6.0	+8	1.42	1.42	—
0.0	NM	0.43	0.00	-0.43
0.5	+18	0.52	0.55	+0.03
4.0	+14	0.96	0.94	-0.02
4.0	+14	0.69	0.70	+0.01
8.1	+10	0.69	0.70	+0.01
8.2	+7	1.21	1.16	-0.05
7.0	+10	1.25	1.24	-0.01
3.3	+24	0.29	0.22	-0.07
3.4	+18	0.57	0.57	—
1.0	+72	1.10	1.08	-0.02
2.0	+69	0.63	0.52	-0.11
3.0	+20	0.47	0.48	+0.01
3.0	+20	1.47	1.48	+0.01
8.5	-1	0.75	0.74	-0.01
9.0	+77	0.36	0.28	-0.08
6.0	+277	1.02	1.26	+0.24
9.9	+2	0.71	0.72	+0.01
0.8	+45	0.70	0.71	+0.01
6.0	NM	0.07	-2.21	-2.28
7.5	+15	8.36	8.84	+0.48
0.1	+39	4.06	4.53	+0.47
0.0	+15	0.69	0.83	+0.14
0.0	+30	0.85	0.83	-0.02
1.0	NM	0.18	0.32	+0.14
7.0	+5	1.72	1.79	+0.07
4.5	-86	0.27	0.05	-0.22
9.0	+7	0.23	0.24	+0.01
8.6	+11	0.77	0.79	+0.02
7.7	+24	1.73	1.98	+0.25
5.0	+67	1.38	1.94	+0.56

	Current qtr. sales	% chg.	Current qtr. profits	% chg.	Est. EPS (6/25)	Reported EPS	Diff.
PAINWEBBER	816.8	+3	45.8	+35	0.87	0.93	+0.06
SAFEWAY	3,450.7	-2	33.3	-6	0.24	0.28	+0.04
SCHWAB (CHARLES)	219.1	+19	18.5	+94	0.52	0.47	-0.05
SEARS ROEBUCK	14,272.9	+1	345.8	+15	0.95	0.90	-0.05
TIME WARNER	3,096.0	+9	9.0	NM	-1.48	-1.59	-0.11
WELLS FARGO	NA	NA	82.0	+486	1.73	1.33	-0.40
TECHNOLOGY	40,826.1	+8	2,264.2	+83	0.68	0.69	+0.01
ADVANCED MICRO DEVICES	350.2	+18	41.4	+140	0.74	0.43	-0.31
APPLE COMPUTER††	1,740.2	+14	131.7	NM	1.07	1.07	—
COMPAQ COMPUTER	827.0	+15	29.0	+43	0.31	0.35	+0.04
COMPUTER ASSOCIATES†	367.5	+28	19.3	+45	0.08	0.11	+0.03
CONNER PERIPHERALS	551.3	+36	46.0	+72	0.51	0.77	+0.26
GENENTECH	124.6	+6	3.4	-70	0.02	0.03	+0.01
HONEYWELL	1,485.8	-2	85.1	+10	1.16	1.23	+0.07
IBM	16,224.0	+10	714.0	+467	1.32	1.25	-0.07
INTEL	1,319.7	+5	213.2	-8	0.99	1.00	+0.01
LOTUS DEVELOPMENT	220.3	+18	14.9	+62	0.49	0.34	-0.15
MICROSOFT	815.4	+55	210.1	+52	0.69	0.71	+0.02
MOTOROLA	3,141.0	+12	146.0	+23	1.08	1.09	+0.01
POLAROID	557.7	+7	35.5	+32	0.46	0.74	+0.28
RAYTHEON	2,321.0	-2	165.6	+9	1.23	1.23	—
SEAGATE TECHNOLOGY†††	780.2	+15	59.3	NM	0.75	0.84	+0.09
TELEDYNE	744.8	-9	7.4	-33	0.36	0.14	-0.22
TEXAS INSTRUMENTS	1,867.0	+11	72.0	NM	0.41	0.75	+0.34
TRW	2,154.0	+9	60.0	+150	0.81	0.93	+0.12
UNISYS	2,088.5	-5	88.4	NM	0.28	0.35	+0.07
WESTINGHOUSE ELECTRIC	3,146.0	-1	122.0	-4	0.40	0.35	-0.05
UTILITIES & TELECOM.	54,615.7	+2	4,719.2	+7	0.73	0.75	+0.02
AMERITECH	2,805.9	+2	343.0	+13	1.21	1.28	+0.07
AT&T	15,845.0	+1	961.0	+4	0.72	0.72	—
BELL ATLANTIC	3,149.0	+1	314.9	-3	0.81	0.74	-0.07
BELLSOUTH	3,816.8	+7	458.5	+26	0.82	0.94	+0.12
COMMONWEALTH EDISON	1,431.7	-6	105.8	-33	0.52	0.41	-0.11
ENRON	3,216.8	+6	51.4	+37	0.26	0.43	+0.17
GTE	5,063.0	+4	446.0	+13	0.50	0.49	-0.01
NYNEX	3,284.1	-2	331.1	+14	1.55	1.62	+0.07
PACIFIC GAS & ELECTRIC	2,519.7	+7	336.4	+10	0.72	0.75	+0.03
PACIFIC TELESIS	2,498.0	-1	282.0	-11	0.75	0.71	-0.04
SCECORP	1,765.5	+4	158.1	-6	0.77	0.71	-0.06
SOUTHERN	2,011.0	0	223.0	+30	0.61	0.70	+0.09
SOUTHWESTERN BELL	2,388.6	+7	304.5	+20	0.93	1.01	+0.08
SPRINT	2,277.3	+3	94.0	+6	0.45	0.43	-0.02
US WEST	2,543.3	+2	309.5	+12	0.74	0.75	+0.01

NA = not available NM = not meaningful † First-quarter results †† Third-quarter results ††† Fourth-quarter results
DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC., INSTITUTIONAL BROKERS ESTIMATE SYSTEM, BW

after losing \$10.7 million a year ago.

Lower PC prices are giving a lift to chipmaker Intel Corp. too, as customers move to more powerful models that use the newest Intel microprocessors. This summer, the new generation of 486-based PCs fell within the \$3,000 budget of many corporate buyers, meaning added sales for Intel's proprietary 486 chip.

Intel could use the business: A price war in older 386 chips drove second-quarter earnings down 8%. Daniel L. Klesken, an analyst with Robertson, Stephens & Co., estimates that sales of Intel's 486 microprocessors will increase to 1.5 million units in the third quarter from 900,000 units in the second. He says that should be enough to boost third-quarter profits by 7%.

And don't forget Microsoft Corp. As the supplier of the leading PC operating system DOS, any unit sales increases go directly to its bottom line. Price cuts also

enable more buyers to pick up machines with enough power to run its Windows graphics program, now offered at no extra charge by 9 of the top 10 PC makers, according to Microsoft Executive Vice-President Steven A. Ballmer. On June 22, Microsoft reported a gain in second-



quarter earnings of 48%, to \$210 million, on sales of \$815 million, a 55% jump.

The price war has not been a windfall for every software vendor, however. Those who failed to offer products for high-end machines are watching the parade pass them by. Borland International Inc., which came late to the Windows market, reported an 85.5% drop in earnings, to \$1.7 million, on a revenue drop of 16.3%, to \$114.8 million.

Even the beneficiaries must be wondering: What happens when the rush is over? Drivemakers face the biggest risks if capacity grows too much. But summer is usually slow, making the current spike especially encouraging, and further price cuts are expected this fall. That should add up to more easy pickings for companies selling the right stuff.

By Richard Brandt in San Francisco, with bureau reports

INSURERS

A PLAGUE UPON INSURERS

Floods, riots, and tornadoes strew wreckage across the industry

There's only one word to describe the second-quarter results that the nation's property-casualty insurers are about to report: disaster.

The first half of 1992 brought a record number of catastrophes, both natural and man-made. Flooding in Chicago, rioting in Los Angeles, and a ton of tornadoes helped propel claims to \$3.7 billion in the spring quarter, estimates American Insurance Services Group (AISG), an

industry organization. That's a two-thirds jump over the year before. And prices for business insurance are down some 10% from 1991. No wonder Transamerica Corp. said on July 20 it planned to unload its property-casualty business.

Real estate woes are making matters worse at some companies. In June, Aetna Life & Casualty Co. said it would take a \$46 million charge on a financial guarantee bond it issued to Olympia & York Developments Ltd. With second-quarter disasters shaving a further 20¢ a share off earnings, the company will be lucky to avoid a loss for the period, according to Salomon Brothers Inc.

FEROCIOUS WINDS. Wall Street's already meager expectations for insurers' earnings may be too rosy. Analysts had earlier forecast that CIGNA Corp.'s second-quarter earnings would come in at about \$1.25 a share, down from \$1.75 a year

ago. But on July 17, CIGNA passed the word that even that sickly estimate was too high.

The Los Angeles riots were by far the single biggest calamity in the quarter. But the weather actually caused greater dollar damage. Insurers face \$775 million in claims for the L. A. disturbances, AISG figures, while tornadoes in the Midwest caused more than \$1 billion in losses.

Surprisingly, stocks of the major property-casualty companies have held up well. Salomon Brothers' insurers' index rose 6% in June, while Standard & Poor's 500-stock index fell 2%. But the market's patience may soon wear thin unless premium prices stage a miracle comeback. About the best thing insurers can do now is pray to Mother Nature for a peaceful second half.

By Tim Smart in New Haven

BANKRUPTCIES

AMERICA WEST: THE FINAL CRISIS?

Almost out of cash, the line is halting lease payments on planes

It looked like the end of a beautiful friendship. For the past decade, Edward R. Beauvais and Michael J. Conway worked as a team in running America West Airlines Inc., the Phoenix carrier Beauvais founded in 1981. But the duo began to split a year ago, when the carrier filed for bankruptcy and Beauvais stepped down as CEO.

On July 17, the last tie was severed: With apparent nudging from Conway, Beauvais stepped down as chairman. Then he blabbed to a Phoenix radio audience that layoffs were imminent, flights would be slashed, and routes to Hawaii could soon be a memory. Responds Conway: "An unfortunate combination of misinterpretation and misstatement."

SCHEMING. The embarrassing flap is just the latest problem for the Phoenix-based airline. America West is facing what may be its final crisis. For months, Conway has talked optimistically of a hefty cash infusion to allow the carrier to move toward reorganization. The money has yet to materialize. And this summer's savage fare wars have slaughtered hopes of stockpiling cash for the less-profit-

able fall and winter seasons. Cash reserves are down to about \$40 million, a knowledgeable source says, compared with \$70 million at the end of April. The airline has suspended payments for 60 days on many of its 85 leased planes. It is looking to cut its fleet of 104 aircraft by 15% and to lay off 1,500 of its 12,000 workers. The carrier will reduce service at its six-month-old Columbus (Ohio) hub and eliminate daily flights to Hawaii at least temporarily. America West has sold baggage-handling and other equipment to Phoenix for \$500,000. Beauvais had to leave, says Conway, to show prospective investors "no stone will be left unturned." Beauvais was identified with the wildly expansionist schemes that got the airline into trouble, says Conway. Beauvais isn't commenting.

FOUNDER BEAUVAIS WAS NUDD OUT BY CONWAY, THEN TOLD TALES OUT OF SCHOOL

But these moves may be fruitless unless Conway can woo new investors. He swears help will come through "in a matter of days." But the airline's lagged performance killed an earlier deal to win private placement money from investors in Columbus. Now, Conway is pinning his hopes on a fragile coalition that includes Aeroméxico, Ireland's G.P. Group, a syndicate of Phoenix businesses, and possibly a group of Columbus investors headed by Banc One Capital Corp., sources say. Several parties would pony up \$60 million in bankruptcy financing. Others would promise \$100 million in equity for an 80% stake in the company when and if it emerges from bankruptcy. One potential investor says he believes America West will see changes in route structure, finances personnel, and strategy that will create a "fundamental change" in the carrier.

America West is betting that aircraft lessors won't lose patience. In a glutted market, there is little incentive for them to repossess planes even if airlines suspend payments. This way, the airline is hoping to save money by renegotiating leases.

Now that Beauvais is gone, Conway must represent the airline on radio himself. If he can pull off his latest scheme, he may find himself in great demand. If not, he may wish he had Beauvais around to take the heat.

By Eric Schine in Los Angeles, with Paula Dwyer in London





THIS IS THE PRINTER

THAT PRINTED THE PROPOSAL

THAT CLINCHED THE DEAL

THAT PUT A NEW CLIENT ON THE ROSTER

AND MIKE ROGERS' NAME

ON THE DOOR.



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TOO MANY LOGOS SPOIL THE PITCH? ISL'S CRAIG SAYS, "ATLANTA WILL BE A TOUGHER SELL"

THE REAL MARATHON: SIGNING OLYMPIC SPONSORS

Promoters are already trying to lure reluctant advertisers for 1996

This year's Olympic torch hasn't even been lighted yet, and Andrew Craig already is worrying about the next summer games, scheduled for Atlanta in 1996. Craig, deputy CEO of ISL Marketing, the International Olympic Committee's exclusive agent for sponsorship sales, has to convince skeptical corporations that sponsoring the Atlanta games is a wise investment. The 1996 sponsor's fee is expected to be about \$43 million, more than double this year's levy, so it's no surprise that Craig concedes, "Atlanta will be a tougher sell."

In a year when the Olympics' glamour event seems to be "ambush marketing," that's an understatement. At the '92 Olympic Games opening July 25 in Barcelona, 12 corporations that paid an average of \$15 million for global rights to promote their link with the Olympics are wrestling to get maximum impact from their outlays—roughly \$450 million in total advertising and promotion costs. Official sponsors are increasingly jittery about competitors who buy broadcast airtime during the Games and come off looking like backers for no fee at all.

There may be a lot less to entice potential sponsors for Atlanta and the 1994 Winter Games in Lillehammer, Norway. Big spenders that have already signed on for the next go-round—such as Coca-Cola Co. and Eastman Kodak Co.—are

pressing the International Olympic Committee to protect their investments. And the Atlanta games' organizers are signing up their own sponsors at \$40 million a pop. With Olympics advertising clutter and ambush promotions on the rise, "this thing is growing into a monster," says Michael Tette, Kodak's Olympics manager.

INSULATED. Slaying the monster is the job facing ISL, the independent Swiss outfit that since 1985 has been the IOC's marketing agent. Founded by the late Horst Dassler, who also started Adidas, ISL cooked up the notion of wrapping global Olympic marketing rights into a single package. The scheme has given the games a revenue base insulated from the vagaries of TV-rights fees, bringing the Olympic movement a record \$170 million this year. It also earned ISL a reputation as the foremost marketer of premier sporting events, including soccer's World Cup.

Atlanta poses ISL's biggest challenge yet. Companies complain, for example, that their rights to advertise as an official sponsor of

the games do not prevent competitors from underwriting individual teams. Fuji Photo Film Co. this year is trumpeting its link with the U.S. track-and-field squad—and undercutting the value of Kodak's Olympic investment, Tette grouches. Partly to ward off attacks from PepsiCo Inc. and others, Coke also bought rights to 38 separate U.S. teams.

But such maneuvers haven't prevented the war of the airwaves. Companies without a sponsorship tie-in are growing more aggressive about jumping on the Olympic bandwagon. Federal Express Corp. ran a series of spots during the 1992 winter games in Albertville, France, that led 61% of viewers polled to believe—wrongly—that Federal was an official sponsor. The news was not exactly greeted with rapture at the U.S. Postal Service, an official sponsor.

FREEZE OUT. As ambushers get more savvy, the rising sponsorship fees get harder to swallow. ISL and the IOC "may be pricing themselves out of the market," says Theo Leenders, events director for Mars Inc., a Barcelona sponsor. To help justify the high costs, ISL is spreading out everything from sports market research to merchandise licensing. Most important, it has begun selling broadcast rights on behalf of the owners of sports events, using the position to freeze out ambushers and cut good deals for sponsors. New ISL CEO Brian McGrath, former head of Columbia Pictures' TV and film marketing, should help that effort.

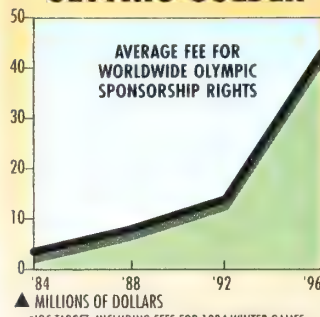
It's easy to see why ISL wants to vault into TV sales, especially in Europe, where fees are soaring just as U.S. rates are cresting. This spring, ISL made its first sale—for the 1993 and 1995 Track & Field World Championships—which cleared \$92 million. The average 15% commission on such deals should add nicely to ISL's estimated 1991 billings of about \$200 million.

But while ISL believes that the new services benefit clients, others see them as potential conflicts of interest. One example: Is it kosher for ISL to offer market research on events for which it also sells sponsorships?

But that's not Andrew Craig's biggest worry. Executives of multinational corporations will soon be asking him, "What, exactly, does \$43 million buy me?" He'll need triumphant results in Barcelona to provide a satisfactory answer.

By Jonathan B. Levine in Barcelona, with Karen Thurston in Atlanta

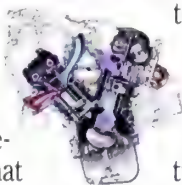
GETTING GOLDEN



DATA: ISL MARKETING, SPECIAL EVENTS REPORT

We should've seen it coming. Suddenly, we're getting a reputation we simply weren't expecting. Racy.

After all, the Camry SE was born with the 185 horsepower 24-valve V6 engine that *USA Today* touts as "providing as much power as a conventional V8." Plus, this new arrival to



V6 Engine

the family is gifted with a startling list of talents unique in the Camry ancestry.

Like stiffer sport suspension, a 5-speed manual transmission, a quicker steering ratio, standard sport alloy wheels, black-out window trim, leather-trimmed steering wheel and shift knob, 5-way adjustable sport seat with bolsters, and color-keyed rear spoiler.

And while its performance and handling

are leaving people wonderfully stunned, one thing about the Camry SE is purposefully predictable. It was raised to be just as safety conscious as its siblings, with a standard driver-side air bag* and available ABS. Of course, at Toyota, we love all our Camrys equally, but when it comes to shock value, the SE is the heir to all we have.

NATURALLY, IT'S BEEN A SHOCK TO THE FAMILY.



THE ALL-NEW 1992 CAMRY SE. WE JUST COULDN'T LEAVE WELL ENOUGH ALONE.



"I love what you do for me."



Call 1-800-GO-TOYOTA for a brochure and location of your nearest dealer.
*Always use your seatbelt. Driver-side air bag is a supplemental restraint system.
Buckle Up! It's for those who love you. © 1991 Toyota Motor Sales, U.S.A., Inc.

In Business This Week

EDITED BY HARRIS COLLINGWOOD

HOME COUNTRIES

Granted, the American Dream has taken a beating lately, but Americans are still No. 1 in home ownership, aren't they? Not even close. In the 1992 *Britannica World Data Annual's* rankings of owner-occupied housing in developed nations, the U.S. trails eight other countries

Country	Percent of homes owned by occupants
TAIWAN	79.1%
NEW ZEALAND	74.1
GREECE	73.1
ISRAEL	72.9
AUSTRALIA	69.1
IRELAND	67.9
FINLAND	67.7
NORWAY	66.6
U.S.	63.5
CANADA	62.1

DATA: 1992 BRITANNICA WORLD DATA ANNUAL

HANDS—WELL, WINGS—ACROSS THE WATER

► British Airways announced on July 21 that it has agreed to buy a 44% stake in USAir for \$750 million. If the deal, which was expected, wins approval from the Transportation Dept., it would create a formidable new competitor in the increasingly international airline industry. The venture would have even more firepower if USAir acquires assets from TWA, as industry sources predict.

While the BA-USAir accord is likely to receive Washington's approval, the U.S. may drag its feet to win concessions from Britain in bilateral negotiations over their airline treaty. The Bush Administration wants expanded operating rights for American carriers landing in Britain.

A POTENT DRUG FOR FIGHTING AIDS

► Upjohn announced on July 22 the synthesis of a drug, BHAP-E, that in the test tube is more potent than AZT, DDI, or any other similar drugs be-

ing used against HIV, the virus that causes AIDS. Clinical trials on healthy people will begin in September.

Irwin Chen, a collaborator in the Upjohn study, adds a note of caution to Upjohn's report. He points out that the virus eventually develops resistance to the new drug. He believes that BHAP-E will most likely be used in combination with other drugs in a kind of chemotherapy approach to treating AIDS.

Chen notes that Merck and Boehringer-Ingelheim developed drugs similar to BHAP-E but dropped them when early results showed HIV resistance developing. "That's too bad," he says, adding that the more drugs available for combining against AIDS, the better the chance of success.

THE OSPREY COULD BE A SITTING DUCK

► The July 20 crash of a prototype V-22 Osprey military aircraft could doom the controversial plane, being developed by Boeing and Textron's Bell Helicopter unit. For three years, Defense Secretary Dick Cheney has tried to eliminate the \$30 billion V-22 program. But the plane's many backers on Capitol Hill have repeatedly pumped money into V-22 development.

On July 2, Cheney reluctantly agreed to spend the \$790 million Congress appro-

HOW DO YOU SPELL CD-ROM?

Zyxt. No, that's not an especially ugly typo, it's the last of 616,500 entries in the second edition of the Oxford English Dictionary, first published in 1989 and now available on CD-ROM.

That's right, CDs, those shiny little discs associated more often with Garth Brooks or Sir Mix-a-Lot than with the biography of the English language. It's not just an electronic dictionary, either. Fancy search-and-retrieval software, courtesy of AN Software of Rotterdam, lets Scrabble freaks find all words in which the letter "q" is not followed by the letter "u." Lawyers can find out what a word meant when lawmakers used it 200 years ago. BUSINESS WEEK editors can look up the phrase "young fogey" and take quiet pride in knowing that the magazine is cited to show how the word is used.

And zyxt? It's an obsolete word meaning "see," worth many Scrabble points.



riated last year to build and test production prototypes. Cheney isn't backing away from his compromise agreement yet. But if investigators determine that a fundamental design flaw caused the crash, the second one in 13 months, the V-22 could be grounded permanently.

COOL DEVELOPMENT: SONY'S BLUE LASER

► Sony has developed a semiconductor laser, or diode, that emits blue laser light—the object of intense, worldwide research for years. Such a device could triple the amount

of information packed on spinning optical disks. That's because blue light has a shorter wavelength than the red light emitted by the lasers in today's compact-disc players, so blue laser light can be focused to a much smaller dot.

A marketable version of the diodes would make it possible to squeeze up to 3½ hours of digital music onto a 5-inch CD. The problem is that Sony's new diodes now perform only at temperatures around -295°C. So, it's going to be a while before Sony can get this development out of the lab and into homes.

ROD CANION HANGS OUT HIS SHINGLE

► Nine months after his ouster from Compaq Computer, the company's co-founder, Joseph "Rod" Canion, has formed a consulting firm to advise companies on management and high-tech issues. Canion's new Houston-based venture, Insource Management Group, will use expertise from computer services, business operations, and employee management. So far, the firm has no clients, but Canion says a first contract is in the offing.



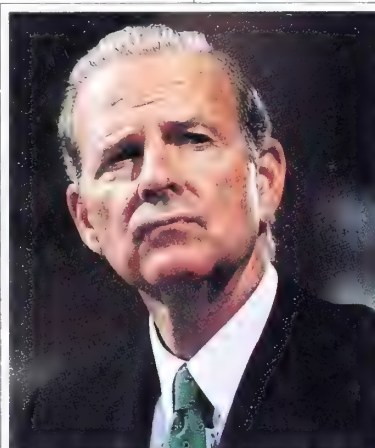
BAKER OR NO BAKER, GEORGE BUSH WILL HAVE TO SAVE HIMSELF

The imminent return of James A. Baker III may leave the Secretary of State nostalgic for a simpler challenge—like Middle East peace. Baker, who ran both Bush's 1988 campaign and Ronald Reagan's 1980 bid, will give the demoralized Bushies some badly needed focus and a sense of mission. And Baker may be the one person who can hand the President a solid campaign script and make him stick to it. But that alone may not be enough. One senior GOP strategist even contends: "This campaign has suddenly gone from George Bush's to win to Bill Clinton's to lose" (page 23).

Under the latest Baker plan, the architect of Bush's New World Order would turn to drafting a domestic blueprint for Bush's second term, while Deputy Secretary Lawrence S. Eagleburger would take charge at State. The troika of Robert M. Teeter, Frederick V. Malek, and Robert A. Moshbacher would nominally stay in charge of the campaign. But no one can miss the message. "Wherever Baker sits down, he's at the head of the table," says a high-ranking campaign aide. "Nobody goes around Baker."

DRIFTING. Baker's challenge is to overcome the perception that Bush has boated, golfed, and fished while the economy floundered. "Between breaking his no-tax pledge and the President's failure to enact a growth agenda, the public has concluded Bush will do nothing constructive about the economy," says retiring Representative Vin Weber (R-Minn.). "Putting Baker in charge is sufficiently dramatic that people might finally believe a second term would be different."

The arrival of Baker would shake up a White House that has been adrift for months. It's a slap at Chief of Staff Samuel K. Skinner. And some Bush aides hope that Baker can manage his rambunctious protege, Budget Director Richard G. Darman. "Finally, we'll have somebody who pushes Darman around," says one staffer. "That's a switch."



BAKER: SHAKING UP THE WHITE HOUSE

Baker's ascendancy is fueling speculation about the fate of Vice-President Dan Quayle, whose selection Baker opposed in 1988. Although polls show that 60% of voters want Bush to dump the Veep, Quayle probably has the job as long as he doesn't decide to give it up. Quayle is not only Bush's main link to conservatives but dropping him now would look desperate. "If I were a Democrat, I would nail the President for something like that," says former Reagan aide Thomas C. Griscom. "Bush, having broken his most important 1988 campaign promise, would be disavowing his most important decision. The Democrats would have a field day."

Besides, most GOP insiders believe, Quayle isn't the root of Bush's problem. Nor is it the White House staff or the campaign operation. It's Bush himself. Many worry about the President's inability to understand the extent of his problems and failure to engage in the campaign. "He seems to be hurt and mad at the public," says Carleton College political scientist Steven Schier. "That's a losing attitude."

GOING NEGATIVE. Baker's ability to shape up the President's reelection drive, coupled with a telegenic GOP convention in Houston, will help Bush close the gap with Clinton. The campaign, which ended June with \$10

million that must be spent before the convention, is considering a barrage of ads showing Bush in a positive light. But Baker won't hesitate to go negative. The campaign is also readying hard-hitting ads that show voters images of a dirt-poor Arkansas, laying the mess at Bill Clinton's feet.

But will this be enough to lift Bush to victory? In 1988, voters had to overcome reservations about his admitted lack of vision. After four years as President, he still doesn't have an agenda. Until Bush stands up and defines himself, reelection will take more than Jim Baker's sure political touch.

By Douglas Harbrecht

CAPITAL WRAPUP

THE SENATE

A fight to streamline the Senate's creaky rules may loom when the new Congress convenes next year. Majority Leader George J. Mitchell (D-Me.) is readying a reform package that would make it much easier to bring a bill to the floor. Under current procedures, a bill can be taken up only if no senator objects or if a majority approves a "motion to proceed." So a single member can hold up legislation for weeks. And passing a controversial measure often requires breaking two filibusters—one on the motion to proceed and another on the bill itself. Mitchell wants to move to a system like that used in the House,

where legislation is taken up at the discretion of the majority leader. Trouble is, any change in Senate rules itself requires a two-thirds vote. And that will be difficult even if, as currently projected, the Democrats add a seat or two to their 57-43 margin in the fall elections.

CAMPAIGN RULES

This year's campaign could be the last hurrah for Willie Horton and his friends. The Massachusetts convict became a household name after an independent group called Americans for Bush ran ads telling how he brutalized a Maryland couple while on furlough from prison under a program approved by Michael S. Dukakis. But

the Federal Election Commission has just voted to ban "unauthorized use" of a candidate's name by political action committees. As a result, campaigns can no longer take advantage of Horton-like spots and at the same time claim to have nothing to do with them. The normal 3-3 partisan split on the FEC was broken when the Administration, which is still taking flak for alleged complicity in the Horton ads, came out in support of the new rules. But to avoid mid-campaign disruption, the commission voted not to make the regulations effective until the 1993-94 election cycle. Still unresolved: how the new rules would restrict ads attacking opponents.

GERMANY

NO BUDGING AT THE BUNDESBANK

Helmut Schlesinger's anti-inflation crusade is straining the EC

Chatting as he sips a morning cup of coffee in his office two miles from downtown Frankfurt, Bundesbank President Helmut Schlesinger's gestures are as spare and efficient as the decor inside the German central bank's headquarters. But as the talk turns to the growing global criticism of high German interest rates, two years after unification, Schlesinger suddenly leans forward. "Our policy is often discussed in other countries as if we were the Germany of 1989," he says, his voice tightening and his eyes narrowing behind his steel-rimmed glasses. "We are not. We are the Germany of 1992, '93, '94—and we have quite different problems."

If Germany's global partners hadn't already gotten the message that domestic concerns come first at the Bundesbank, there should be no doubt now. Its July 16 decision to squeeze domestic inflation by raising the discount rate by three-quarters of a point, to 8.75%, sent bourses and bond markets around the globe reeling, pushed the dollar's value close to a historic low of 1.45 German marks, and forced the Federal Reserve to organize an intervention campaign to prop up the greenback. Schlesinger's insistent stand on inflation may even further complicate the European Community's efforts to ratify the Maastricht Treaty on economic and monetary union. "The move was very destabilizing," says Giorgio Bodo, top economic analyst at auto maker Fiat. "If I wanted to be really nasty, I'd say that the Bundesbank doesn't mind that European unification will slow down."

For the 67-year-old Schlesinger, the markets' chaos was just the latest episode in nearly a year of living dangerously as the Bundesbank's head. Schle-



UNIFICATION "That requires big financial assistance. But it must be done on the basis of keeping the stability of our money"

INTEREST RATES "One cannot make a forecast now for lowering rates or of a need to go up once more"

EUROPE "Our measures are helpful for the European Community and acceptance of the Maastricht Treaty"

singer sees himself on a crusade to vanquish inflation spawned by the high costs of unification. If nothing else, that has established the Bundesbank as the most tangible symbol yet of the assertive new Germany that many neighbors fear. Even German business leaders are concerned. With the global economy so weak, says Daimler-Benz Chairman Edgar Reuter, "there are certainly questions whether it was wise" to hike rates. "They could have waited."

'PLEADING.' More shock waves could lie ahead. High German rates will cool domestic growth, keep pressure on the dollar, and put a further damper on the economies of Europe and even Japan. Until July 16, "there was a slight chance of Japan decreasing the discount rate in a few months," says Kazuo Ogura, the Japanese

Foreign Ministry's chief economic aide. But now, "we'll have to reconsider."

It's not as if Schlesinger and the 17 other members of the Bundesbank's policy-making council didn't make a stab at limiting the fallout. The council confined its increase to the largely symbolic discount rate. But traders think the bank will eventually increase its Lombard rate, too. Now at 9.75%, it sets a floor for money-market interest rates across Europe. Schlesinger, in an interview with *BUSINESS WEEK*, wouldn't rule out a further rate hike. "One cannot make a forecast now for lowering rates or of a need to go up once more," he says.

In trying to squeeze Germany's current 4.3% inflation rate and break the back of 9% money-supply growth that has far overshot bank targets, Schlesinger has discovered how limited his leverage really is. Since unification, Bonn's budget deficits have ballooned

and billions of marks' worth of cheap, government-subsidized loans have poured into eastern Germany. The loans, amounting to one-sixth of the new lending in all Germany, have left credit demand largely insensitive to interest rates. "I'm pleading that the federal government not extend these measures," Schlesinger says. "They make our own work more difficult."

That reality has mocked Bundesbank anti-inflation rhetoric ever since December, when the council last raised rates. Schlesinger is a longtime hard-liner who says he is devoted to "keeping the stability of our money." So until money-supply figures drift down toward the 5.5% annual growth target the bank has set for itself, the chief needs to keep sending tight-money signals or face a growing credibility gap. July's inflation figures are expected to show a drop, to an annual rate of 3.5%. Still, few expect the tension to ease, as public-sector workers prepare for wage talks this fall.

OU OU NON? EC ministers are hoping that inflation is all that Schlesinger succeeds in killing. The central banker insists "our measures are helpful for the European Community and for acceptance of the Maastricht Treaty." But a Brussels official confides that EC finance ministers have "decided to keep their mouths shut" to avoid dramatizing the latest Bundesbank move. That may be wise. With France's crucial referendum on Maastricht scheduled for Sept. 20, French voters could easily find the Bundesbank's current domination of European monetary policy reason enough to reject a deal that will force countries to cede monetary sovereignty to a new bank run largely by Germans.

Even if France votes yes, higher German rates will certainly strain European unity by putting pressure on countries such as Italy and Britain to devalue currencies and risk a breakup of Europe's system of managed exchange rates. "The whole concept of the [system] was based on low inflation and low interest rates in Germany, and we've got the reverse of that," complains Ronald Cohen, chairman of the British venture-capital group Apax Partners Ltd.

For Schlesinger, the need to look over his shoulder at the impact of Bundesbank decisions on Europe has made his hot seat at the Bundesbank all the more uncomfortable. But choosing a path out of the dilemma doesn't give him pause. "There's no possibility of helping our partner countries by allowing more inflation in Germany," he says. At the risk of inflicting more pain on his allies in Europe and abroad, that's a point he'll drive home again and again.

By Bill Javetski, with John Templeman in Frankfurt, John Rossant in Rome, and Richard A. Melcher in London

JAPAN

NOW, JAPAN IS ADMITTING IT: WORK KILLS EXECUTIVES

It has begun compensating the families of white-collar victims

Two years ago, Jun Ishii was at the peak of his career at Mitsui & Co. As one of Mitsui's only speakers of Russian, the factory-automation specialist shouldered the bulk of the burgeoning Russian business for one of Japan's largest trading houses. Over the previous year, he had made 10 Russian trips totaling 115 days. When he arrived home in Tokyo from one grueling journey, Mitsui immediately sent him out to guide four Russian clients on a factory tour near Nagoya. But while taking a shower in his hotel room, Ishii, who was 47, died of a heart attack.

In mid-July, his widow, Sachiko, scored a counterblow on behalf of Japan's slaving salaried workers. After documenting the final days of Ishii's life—the travel and the stress—Tokyo labor regulators ruled that overwork killed her husband, and the government will pay her an annual worker's compen-

sation. That reality has mocked Bundesbank anti-inflation rhetoric ever since December, when the council last raised rates. Schlesinger is a longtime hard-liner who says he is devoted to "keeping the stability of our money." So until money-supply figures drift down toward the 5.5% annual growth target the bank has set for itself, the chief needs to keep sending tight-money signals or face a growing credibility gap. July's inflation figures are expected to show a drop, to an annual rate of 3.5%. Still, few expect the tension to ease, as public-sector workers prepare for wage talks this fall.

IRRITABLE AND ILL. With the Ishii case, regulators have expanded *karoshi* compensation to Japan's legions of salaried workers. The impact is rippling through boardrooms, and a handful of companies are already trying to ease the pressure. This year, Matsushita Electric Industrial Co. is extending vacations from 16 to 23 days a year and requiring workers to take all of it. Other companies are starting to track employees' emotional health. A branch of telephone giant Nippon Telegraph & Telephone Corp. found that stress was making some workers irritable and ill. So, to improve the emotional health of its employees, the company initiated periods of silent meditation.

In the Ishii case, not only did Mitsui cooperate and pay compensation but it is also taking steps to prevent a similar occurrence. From now on, general managers will be assessed as to how well they set overtime hours, keep subordinates healthy, and encourage workers to take vacations. But Mitsui doesn't want to set limits on working hours. "We're not a company of children," says Hidemi Mori, a Mitsui spokesman.

Though the Ishii case will bring some improvement in working conditions for office workers, *karoshi* is still a cloudy issue. It's often difficult to determine if *karoshi* is caused by work demands, or private, late-night socializing that may be work-related. Some experts also blame a lack of exercise and the fattier modern diet, not just stress. Whatever the cause, more families are simply no longer willing to put up with the myth of the Japanese corporate samurai.

By Karen Lowry Miller in Tokyo



TOKYO COMMUTERS: OVERWORK CLAIMS 10,000 JAPANESE A YEAR

sation. "Finally, the government recognizes that white-collar workers can die of *karoshi*," says Kazuhiro Nakanishi, the family's lawyer. "I expect to see more people come forward now." Mitsui cooperated fully with the government's investigation and made a onetime payment of \$240,000, Ishii's lawyer says.

Ishii's plight is common in Japan. *Karoshi*—sudden death by a heart attack or stroke triggered by overwork—claims some 10,000 Japanese each year, estimates Hiroshi Kawahito, a lawyer who

CAPITALISM, CASTRO STYLE

It's a fragile mix: Private initiative, foreign cash, and repression

In his downtown Havana office, crammed with personal computers and copiers, Felix Sautié is full of ideas for UFO Services, the publishing and marketing conglomerate he heads. The group already acts as matchmaker between foreign and Cuban business partners and provides professional services to foreign companies investing in Cuba. But there's more to come, says Sautié. Through UFO's new U.S.-Cuba phone link via Canada, called Rapidtel, callers are able to dial a Canadian 800 number that bypasses the clogged U.S.-Cuba phone wires—for a stiff \$23.50 for three minutes. And a computerized data base on Cuba will soon be available to foreign investors.

UFO and a few dozen companies like it are the latest wrinkle in Fidel Castro's communist revolution. Joint-stock companies, quasiprivate enterprises, and "autonomous" state-owned companies are popping up all over the island. UFO began a few years back when Cuban investors, many with close ties to the Castro regime, put up cash and other assets valued at 1 million pesos. So far, UFO has plowed back its profits of 1 million pesos, officially worth \$1 million. In another variation on the theme, Cubanacán, a state company, has wide latitude to make deals with foreign-tourism investors. That's the sector Castro is counting on to help alleviate Cuba's desperate hard-currency shortage.

For Cuban *caudillo* Fidel Castro, all this is part of a survival strategy. Battered economically by the Soviet bloc's collapse, which cut off vital trade and subsidies, Castro is trying to spur more enterprise and productivity in the inefficient Cuban economy. Along with opening up niches in the economy for private initiative, he is striking quick deals with European, Canadian, and Latin American investors to bring cash, management, and world-marketing connections in everything from tourism to oil exploration. All these links are despite a 32-year U.S. trade embargo.

What Castro is groping for is

a precarious balance between his hostility to capitalism and his need for Western partners—and their money. Can he bring back private capital without capitalism? "I don't think it will create a special problem," Castro said in a brief interview at a recent conference for foreign business executives. "Our people know what capitalism meant to our country."

His aim is to open limited parts of the economy to capitalist investment and market mechanisms without unleashing forces such as those that toppled Eastern European governments. Cuba's leaders know "they are running a dangerous game by allowing these companies to come in and show how capitalism works," says Arturo Villar, a Cuban-American researcher who visits Cuba often to do studies for business clients. "But they have no choice."

POLITICAL PRISONERS. Castro's hope is to keep islands of private business isolated from the rest of society. At the same time, he is tightening his political grip by handing out stiff prison terms to advocates of political change. Dissident Elizardo Sánchez derides Castro's moves as "superficial changes to gain time." Even so, Castro is still seen by many Cubans as a nationalist champion against U.S. pressures. Despite widespread hardship and political disillusion, there's no sign of organized opposition.

Still, Castro does need to buy time. The Cuban economy received its latest blow in mid-July, when Moscow failed to renew

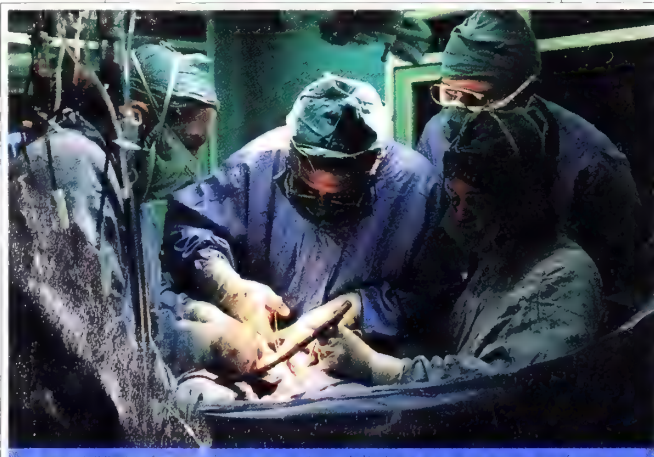


THANKS TO EUROPEAN INVESTORS, TO

three decades of oil-for-sugar barter. The Russians had already sharply cut back oil deliveries from their shrinking production. Now, even if Moscow continues to trade with Cuba, it is likely to do so strictly for hard currency—at world market prices.

What's more, shortages of fuel, fertilizer, and spare parts cut Cuba's recent sugar harvest to 6 million tons, the lowest since 1975, and forced factories to shut down, raising unemployment to an estimated 10%. The production cuts have slashed gross domestic product to an estimated \$20.3 billion this year, down from \$32.8 billion in 1989 (chart). But Smith College economist and Cuba expert Andrew Zimbalist thinks Cuba's economy now may be close to bottoming out—with Castro still in power. Western diplomats in Havana say Cuban officials' confidence is bolstered by every month of survival.

The fast pace of deals with foreign investors is helping to smooth over the crisis. Foreign partners are jumping at the chance to help Cuba explore for oil. France's Total, Brazil's Petrobras, Sweden's Taurus Petroleum, and Canada's Northwest Energy, a subsidiary of Canadian mining conglomerate Sherritt Gordon, have already signed contracts or are in negotiations. Sherritt Gordon is also



FOREIGNERS FLY IN FOR ORTHOPEDIC AND EYE SURGERY



ELS ARE KEY TESTING GROUNDS FOR CAPITALIST MANAGEMENT, MARKETING, AND SERVICE

buying Cuban raw nickel and cobalt, worth about \$54 million last year, for processing in its Alberta refinery, and it's discussing a \$70 million investment in nickel refining in Cuba.

Ottawa encourages such dealings with Cuba as part of Canada's trade-promotion efforts. But a pending bill in the U.S. Congress, introduced by Representative Robert G. Torricelli (D-N.J.), aims to limit trade with Cuba by U.S. companies' foreign subsidiaries. If it passes, it could stir up a nasty dispute with Canada and other trade partners that do business in Cuba.

Acknowledging the success of Cuba's embryonic private economy thus far, the rubber-stamp National Assembly even rewrote the Cuban constitution in mid-July. It now says that the state owns the "fundamental"—not all—means of production. And it gives decentralized state enterprises more autonomy, allowing them to import and export as self-financing enterprises. The revisions "clearly anticipate a gradual expansion of the private sector," says Zimbalist.

The experimental

tion with market-oriented policies shows up even in such hard-core industries as steelmaking. The Antillana de Acero steel factory near Havana now boasts worker teams and allows more participation from the shop floor. The plant has pared its work force, and salaries of laid-off workers are spread among employees in the form of bonuses for added productivity.

But it's tourism, a big hard-currency earner, that is the major testing ground for capitalist techniques. Hotel managers are allowed to buy from any of the state trading companies, which compete with each other. "The government may have said they're not changing anything, but they are changing," says a foreign partner in a Cuban hotel.

"Cuba is open for business."

Castro is also counting on income from the country's extensive health care system and biotechnology industry. "Health tourism" draws in hard-currency patients from the Caribbean, South America, and even Europe. As many as 6,000 foreigners are expected this year for such special-ty treatments as

night-blindness surgery and orthopedic therapy. For years, Castro has also targeted biotechnology as part of an effort to diversify the island's economy. Three years ago, Havana sold Brazil's São Paulo state government \$10 million worth of Cuban-developed meningitis-B vaccine to help check an epidemic.

The payoff from such ventures is likely to be modest, though, compared with the free-spending potential of foreign vacationers. Zimbalist estimates that tourist revenues totaled about \$400 million in 1991, of which Cuba netted \$135 million. If optimistic Cuban projections of 500,000 tourists this year come true, gross revenues could climb to \$600 million, for a profit of \$200 million.

SERVICE WITH A SMILE. Cubanacán has put up six hotels in partnership with foreign investors since 1990, with more on the way. The 218-room, \$18 million Tuxpan, for example, is a 50-50 joint venture with Mexican real estate developer CDC Inmobiliaria and is managed by LTI, a subsidiary of German tourist conglomerate LTU, which flies in charter plane-loads of

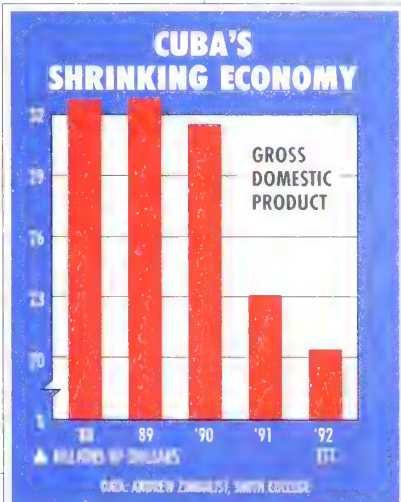
beach-crazy Europeans.

Tuxpan is becoming a showcase for Cuba's emerging new mentality about service and efficiency. Eamonn Donnelly, an Irishman who has managed hotels in Germany, the Canary Islands, and Brazil, says LTI's experience in Cuba has been so good that it's looking for a second hotel to manage. When he first arrived in May, 1991, though, costs were out of control. He set up a middle-management training program, and in staff meetings, he stressed such foreign concepts as budgets, profits, customer service, and cost-cutting. The result was a sharp drop in operating costs and employee turnover.

Some Cubans are taking quickly to the role of entrepreneur—and want more of it. A 32-year-old taxi driver who yearns to open a restaurant says "it's unfair" that foreigners can run businesses and ordinary Cubans can't. A 35-year-old carpenter wants his own shop, and a nightclub administrator wants his own club.

The long-term risk is that Castro may find it difficult to keep capitalism confined to discrete pockets of the economy. Over time, what started out as a survival strategy may lead to more change in the communist system than Castro ever bargained for. But at least for now, the Cuban leader has found a way to ease the economic crisis that threatens his stronghold.

By Gail DeGeorge in Havana, with John Pearson in New York, and bureau reports





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KOREA: HYUNDAI'S CHUNG MAY PLAY KINGMAKER

On July 21, veteran politician Kim Young-Sam and Hyundai founder Chung Ju-Yung huddled together under a national spotlight for the first time since becoming rival presidential contenders. The meeting could signal an important break in the political and economic paralysis that is gripping South Korea.

Neither of them would reveal the agenda of their two-hour tête-à-tête at a National Assembly restaurant, but many analysts believe they are mapping an alliance that will ensure Kim's election as President in December and give the wily Chung an important voice in economic policy and personnel matters. They could forge a formidable combination in boosting sagging business confidence. "The two have little difference in economic policy. Both call for less regulation and freer markets," says Cha Dong-Se, president of the Lucky-Goldstar Economic Research Institute.

Political neophyte Chung vehemently denies that he has any plan to end his candidacy or support Kim Young-Sam. "He is not the type of guy who quits," says Chung Mong-June, his son and political aide. But many political analysts predict that Chung will conclude that he has no chance of winning and throw the support of his year-old United People's Party to Kim. This would trump the remaining presidential contender, firebrand Kim Dae-Jung, whom some business interests see as a threat. "Chung will cut a deal with Kim Young-Sam," says Kim Kihwan, a noted economist, "because he should prefer him over Kim Dae-Jung."

MORE CLOUT. Until recently, Chung had been collaborating with Kim Dae-Jung. But now Chung, 78, a onetime mechanic who is now a billionaire, seems to have decided that he can have more impact by cultivating the ruling Democratic Liberal Party's more popular Kim Young-Sam. As a first step,

Chung recently agreed to cooperate with the ruling party's efforts to convene the National Assembly, which the opposition has boycotted for several weeks.

Kim Young-Sam and Chung complement each other nicely. Chung's support could give Kim, whose base is in Pusan at the southern tip of the Korean peninsula, the clout he needs in Seoul and the central provinces. At the same time, Chung needs Kim's political patronage to bail out his beleaguered business empire. Since Chung went into politics early this year, Hyundai Corp. has come under tremendous pressure from politically inspired tax investigations and other harassment from President Roh Tae-Woo, whose term is expiring. Chung's fifth son, Mong-Hun, still languishes in jail on charges of tax fraud brought last April.

Beyond such expedencies, the two men could also combine their strengths to tackle economic problems ranging from 10% inflation and 20% interest rates to a growing trade deficit and flagging industrial investment. Kim has never been a strong policymaker, resting instead on his laurels as a nice guy and leading exponent of democracy in the 1970s and 1980s. But he is an extremely adroit tactician who spent 40 years in opposition before shrewdly joining forces with Roh two years ago.

Chung, on the other hand, has had trouble lifting his party beyond the 17% of the popular vote it won in the National Assembly election last March. But he has tough prescriptions that Kim could help sugarcoat. These include cutting bureaucratic regulation, opening domestic markets, eliminating credit restraints, and slashing interest rates. Frustrated with Roh's extensive intervention in the economy, the Korean public may well be in the mood for this medicine.

By Larmi Nakarmi in Seoul, with Robert Neff in Tokyo



KIM YOUNG-SAM: IS HE TEAMING UP WITH CHUNG?

GLOBAL WRAPUP

ITALY

In a sharp break with its paternalistic past, Italy's new government has ordered a major state company to go into de facto bankruptcy. Prime Minister Giuliano Amato has announced the liquidation of EFIM, a defense and heavy-industry combine burdened with \$7.5 billion in debt.

But the surprise move could make borrowing much more costly for Italy in the future. The government's unilateral rescheduling of EFIM's debt has outraged foreign banks. Standard & Poor's Corp., which does not rate EFIM, says it may soon downgrade the ratings of other Italian public sector com-

panies as well as banks that borrow internationally.

GERMANY

The threat of takeovers is beginning to influence German business strategy. Slumping profits and worries about a possible raid helped push Schering AG, a \$4 billion-plus German drug and chemical concern, to spin off two of its five divisions to Witco Corp. of New York for about \$400 million. A third may also be sold, bringing both the work force and sales down by a total of 20%. The company wants to focus on drugs and agricultural chemicals. Schering has antitakeover measures in place, but Chairman Gius-

epe Vita is said to privately admit that he can't count on them anymore. Other German companies could follow suit in slimming down.

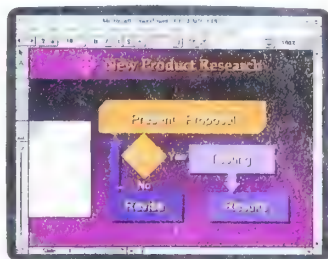
HUNGARY

A new labor law could throw a scare into foreign investors. Modeled closely on Germany's code, Hungary's version gives a lot of clout to workers' councils and unions. It also guarantees workers more leisure time than many of their American and Japanese counterparts—a minimum of four weeks' vacation with five weeks for workers over 45. The law does include one plus for employers: It makes firing workers easier.

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POLITICIANS



STRAUSS: MOSCOW TURNS OUT TO BE "A SMALL COMPANY TOWN JUST LIKE WASHINGTON"

BOB STRAUSS LEARNS HOW TO SAY 'ROLODEX' IN RUSSIAN

His inside-the-Beltway skills work well with Russia's power elite

Every three weeks or so, a stocky young Russian in a gray suit appears at the entrance of Spaso House, the stately mansion of the U. S. Ambassador in Moscow. Ambassador Robert S. Strauss cordially welcomes him and leads him to a sitting room decorated with art of the American Southwest. Over a couple of bourbons—the young man's favorite drink—they relax and hash over politics, power, and business. Often, the 73-year-old ambassador offers kindly advice to his 36-year-old guest. And just as often, Strauss pushes his own agenda: speeding up U. S. investment in Russia.

To those who know him as one of Washington's most ubiquitous political operators, it is no surprise that Bob Strauss has become fast friends with Yegor Gaidar, the acting Prime Minister of Russia. Strauss has long demonstrated a penchant for finding the center of power and pitching his tent nearby. His courtly blend of Texas charm and inside-the-Beltway savvy routinely disarms on both sides of the aisle in Washing-

ton. Now, it is working in Moscow, too.

Many career diplomats scoffed when President Bush appointed his Texas buddy to the ambassadorship last summer: How could Strauss, who speaks no Russian and has had no formal training in Soviet affairs, adequately represent America in Moscow? A year later, though, Strauss has emerged as a forceful U. S. advocate, drawing on decades of experience as deal-maker, Democratic Party Chairman, U. S. Trade Representative, and Middle East en-

voy. Strauss has become a friendly tutor to Russia's new democrats as they struggle internally and scour the world for economic aid. In return, ties to Gaidar and Russian President Boris Yeltsin are smoothing the way for U. S. business interests in Russia.

Since July 14, Strauss has been in Washington lobbying Congress fiercely for something he deems vital to both sides' interests: the Freedom Support Act, which would unleash the U. S. portion of a \$24 billion Western aid package for Russia. While he preaches that private investment is the long-term solution to Russia's problems, he also argues that the country needs quick aid to stabilize its economy and currency. "We have to stand with them now, if we are going to make partners out of them," he says. His strong position irks some Bush officials. Several fear Yeltsin is too volatile and wonder how much stock the U. S. should place in him.

QUIET INFLUENCE. Strauss's special skill, though, is balancing accommodation and persuasion. He is, after all, a Democratic party honcho working for a Republican President. He arrived in Russia just after last August's coup but quickly solidified friendships with both Yeltsin and then-Soviet President Mikhail Gorbachev. Thanks in part to Strauss's agility, there was nary a hiccup in U. S.-Russian relations when Yeltsin took over.

Since the radical economic reforms began in January, Strauss's influence has quietly spread through the Russian bureaucracy. These days, midlevel officials ask him to argue their case with Gaidar over dinner. Meantime, Strauss is already starting to court a trio of conservative ministers Yeltsin recently brought into his government to accommodate the less reform-minded among his constituents, even though many Westerners label the three as reactionaries. "Moscow is a small company town just like Washington," he says. "Everybody knows who is having dinner with everyone else every night."

In his new world, Strauss has become

something of a political guru to the Russians. Gaidar decided to attend the recent economic summit in Washington only after Strauss told him he would be a "damn fool" not to because of his heavy work load. "I told him 'Yegor, you be on that damn plane and go to Washington, even if you just sit around,'" Strauss says. Likewise, everyone knows that Strauss coached Yeltsin before he addressed a joint session of the U. S. Congress in June.

Such close ties may give some Bush officials jitters, but they also pay dividends: Strauss

THE STRAUSS AGENDA FOR RUSSIA

FOREIGN AID Russia's collapsed economy needs stabilizing.

Strauss is lobbying Congress to pass an unpopular bill that would free up billions in loans and technical/humanitarian aid

BUREAUCRACY U. S. deals are getting bogged down. Strauss has asked the Yeltsin government to appoint a team of ombudsmen to speed up the approval process

INVESTMENT To improve the climate, Strauss is lobbying Russian Parliament to pass laws defining private property rights

OIL Strauss won export tax exemptions for a big Conoco deal. He's seeking similar breaks for other oil companies

TAXES Strauss helped persuade Russian Parliament to slash top income tax rates from 60% to 40% to improve the environment for executives living in Russia. He's still pushing a 30% rate

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has successfully lobbied to change punishing Russian tax laws regarding foreign investors. He has also begun to help close deals that had languished in the impenetrable Russian bureaucracy. Last December, Conoco Inc. formed a joint-venture to invest up to \$3 billion to drill oil near the Arctic Circle. But then the government decided to tack a \$6-a-barrel tax on oil exports, making the project uneconomical. Strauss went to work on Yeltsin, Gaidar, Russia's Committee on Foreign Investment, and the Ministry of Energy—or, as he puts it, on "every living son of a bitch." By mid-July, Conoco had won an exemption from the tax. Strauss "was instrumental," says James Tilley, a Conoco official in Moscow.

When he arrived in Russia, oil was one area Strauss wasn't supposed to touch. His own investments in Texas oil and gas—and those of his Texas law firm, Akin, Gump, Hauer & Feld—would make his advocacy look like self-dealing. "But after I had been here about a month, I called Washington and said if I can't talk about oil and gas, I'm going home," recalls Strauss. "I got a waiver of that conflict." It helped that he put much of his \$13 million in assets into a blind trust while he's in Moscow.

GETTING RESTLESS. Not that Strauss talks only oil: He has a full agenda of lobbying items before the Russians (table). "I am trying to convince the people who handle Russian economic affairs that capital to be invested is like a beautiful woman. It has a lot of suitors." But he's also careful not to patronize. As he points out the inadequacies in the Russian investment climate, he shares anecdotes about American bureaucracy and the frequent tussles between the U. S. President and Congress. "The trick is not to preach and talk down to, but to visit and talk about our own failures and frustrations and what happened to us in the last couple of hundred years," he says.

Even as that formula takes hold, Strauss is planning to quit Russia. He readily admits that Moscow's 18-hour workdays are "damn hard." In New York during the Democratic National Convention—where he stopped on his way to lobby for the aid package—he looked drawn as he sipped water instead of his signature tumbler of whiskey. "I'm tired," he said, noting that he misses friends, family, and Maryland's Laurel Race Course—a favorite haunt on free afternoons in Washington.

If he succeeds in pushing the aid package through Congress, Strauss will likely be home before Inauguration Day. He will have helped lay the groundwork for a new era of U. S.-Russian cooperation, and that's enough. "He recognizes that we'll need somebody who's better at executing the plan than putting it together," says friend John White, former Democratic Party chairman. The question is, who will Gaidar turn to for whiskey and political advice?

By Rose Brady, with Deborah Stead, in Moscow, and bureau reports

The Corporation

STRATEGIES

IS FOUR SEASONS THROWING CAUTION TO THE WIND?

In the face of a hotel slump, it cuts a \$122 million deal with Regent

Isadore Sharp, the perfectionist CEO of Four Seasons Hotels Inc., doesn't have much regard for conventional wisdom. While his rivals piled on debt during the booming 1980s, Sharp followed a much more cautious approach, not wanting to jeopardize the company he founded in 1960. At times, even many

the prowl just now. The industry's problems are taking their toll. Last year Four Seasons' net earnings fell for the first time since it went public in 1986, tumbling 84%, to \$2.3 million, on revenues under management of \$524 million. The main reason: Its hotel ownership business, which holds stakes in 14 Four

Seasons and accounts for about a fifth of the company's revenues, had an operating loss of \$10.2 million. The balance of Four Seasons' revenues comes from the hotel management side, where operating earnings fell 8%, to \$10.4 million last year.

Things aren't looking much better this year. For the quarter ended Mar. 31, the company reported a net loss of \$2.7 million. Meanwhile, debt is mounting: The Regent deal will double Four Seasons' borrowings to \$213 million, or 57% of total capital.

TOP-NOTCH. But for Sharp, 60, the Regent deal was too tempting to resist. The luxury chain, owned by Japan's financially reeling EIE International Corp., offers Four



CEO SHARP COULDN'T RESIST ROLLING THE DICE THIS TIME

of his own employees criticized his caution, he says. But now, with the hotel industry in a pronounced slump, Sharp is making his boldest move ever: In early August, Four Seasons will pay \$122 million for the rights to manage the Hong Kong-based Regent International Hotels Ltd. empire. When the hotels now being built are complete, Toronto-based Four Seasons will manage 43 hotels in 17 countries. "It makes us, instantaneously, the dominant high-end hotelier worldwide," Sharp crows.

On the surface, Four Seasons doesn't look like a company that should be on

Seasons an instant presence in Asia, a market where it is little-known. As part of the deal, Four Seasons gets a 25% stake in the Regent Hong Kong, often ranked as the world's top hotel. "This gives them an exposure in Asia that would have taken years to develop on their own," says William Sumpton, an analyst with Loewen, Ondaatje, McCutcheon & Co., a Toronto securities firm.

Perhaps most important, the Regent deal will help Four Seasons sharply reduce its exposure to the hotel ownership business. In addition to taking over management of Regent, Sharp is placing

Four Seasons' stakes in six hotels into a new, as-yet-unnamed company. EIE will contribute its stakes in either five or six Regent Hotels. Because of the hotels' differing values, Regent will get 81% of the new partnership and Four Seasons will own just 19%. Thus, Four Seasons won't have to consolidate results, and its financial statements ought to be dominated by more stable management earnings. Executive Vice-President Roger Garland figures the Regent deal will boost Four Seasons' revenues by 55%, to more than \$820 million.

Four Seasons executives contend that they have structured the deal to protect their company from financial risk. EIE will be responsible for all the losses of its six hotels in the new company, including the opulent one now under construction in hotel-glutted New York, for the next five years. After lengthy negotiations, EIE and Four Seasons have agreed to limit the debt of the 12 hotels within the new company, shouldering the rest themselves, so the debt can be easily sustained by ongoing operations, assures Garland.

Logical as the strategy sounds, however, Four Seasons has some big obstacles to overcome. First, it must open and then run six luxurious hotels now under construction in a difficult market. Foremost among them is the new Four Seasons New York, which hotel broker Stephen Brener calls "by far the most expensive hotel ever built in this city." Built by Regent, the I. M. Pei-designed palace cost more than \$1 million per room. Before the deal with Four Seasons, it would have had to charge more than \$1,000 a night to recoup EIE's investment, says hotel consultant Laurence Geller. Now, it won't have to. Still, experts figure the hotel will be lucky to get \$400 a night. The hotel market "is a disaster that is not going away," says Morris E. Lasky, CEO of consultancy Lodging Unlimited Inc. He doesn't see an upturn much before 1995.

UNSTAFFING. To make the most of his investment, Sharp has to get a handle on Regent's costs. A typical Regent employs three to four staffers per guest room, about twice the Four Seasons level and many times the industry average. But rising Asian labor costs have made this brand of effusive hospitality increasingly uneconomic. Sharp says that Four Seasons will retrain Regent employees to "do more on their own initiative," reducing the need for huge staffs. But Four Seasons runs the risk of sacrificing Regent's legendary quality or alienating its employees. The company is

"in for a big shock" if it tries bringing a "North American mentality" to Asia, says a top Hong Kong hotel executive.

There is also the potential for clashes between Four Seasons, eager to expand globally, and EIE's worried bankers, who have had the company under their thumb since early 1991. Some friction between the companies was apparent even during the preparation of this article: Although Four Seasons made all of its top executives available for interviews with *BUSINESS WEEK*, the Japanese company refuses to comment until the

ter of it. On July 16, EIE, now being run with the help of Long Term Credit Bank of Japan Ltd., suspended interest payments on some \$4 billion of debt. Meanwhile, EIE hopes to sell about 40% of its \$5.5 billion in overseas holdings. But it didn't want to sell its seven Regents in the slumping hotel market. After buying out Chief Executive Robert H. Burns's 65% stake in Regent, EIE retained First Boston Inc. to find a new buyer to manage the chain and take a stake in the Regents owned by EIE. Four Seasons signed a binding agreement on June 19.

GLOBAL DELUXE

By taking over management of 15 Regent hotels, with part ownership of up to six, Four Seasons will control 43 luxury hotels in 17 countries. Key properties:

Region	Properties
NORTH AMERICA	The Pierre, New York The Ritz-Carlton, Chicago Regent Beverly Wilshire, Los Angeles Four Seasons Hotels in Washington, D.C., San Francisco, Toronto, and New York*
EUROPE	Inn on the Park, London Four Seasons Hotels in Milan* and Paris**
ASIA	Regent Hotels in Hong Kong, Sydney, Bangkok, and Singapore Four Seasons Hotels in Tokyo and Bali*

*UNDER DEVELOPMENT BY REGENT
**UNDER DEVELOPMENT BY FOUR SEASONS
DATA: COMPANY REPORTS

deal closes. "This deal is a bold experiment," says Geller. "You wonder if it is going to be synergistic or destructive."

In its glory days, EIE was just the sort of flamboyant enterprise Sharp wanted to keep Four Seasons from becoming. The Tokyo company, which built an \$8 billion empire loaded with \$7.5 billion in debt, focused heavily on luxury hotels. With a 30% stake in Regent, it launched an expenses-be-damned expansion program. Those projects, now nearing completion, include the conversion of a former 14th century Milan monastery into a 98-room hotel, and a resort in Bali featuring 147 Indonesian villas, each with its own pool and lanai.

But its borrowings finally got the bet-

'It makes us, instantaneously, the dominant high-end hotelier worldwide,' crowds Four Seasons' Sharp

One thing the chains do share is great service. Four Seasons offers everything from immediate clothes pressing to special tea service and kimonos for Japanese guests. The company is developing a global network to keep track of visitors' preferences, down to such details as their favorite type of pillows. Regent, judging from various surveys of hotel guests, does an even better job. From the cloth cocktail napkins to the employees who unfailingly remember guests' names, travelers almost universally describe Regent as tops in pampering.

Given that worldwide reputation, many believe Four Seasons is gaining management control for a song. "It's a once-in-a-lifetime opportunity," figures analyst Tony Tsoi of Sanwa McCarthy Securities Ltd. in Toronto. He won't get any argument from CEO Sharp. Just the same, it's probably a good thing he went slower than most in the frenetic 1980s: Making this deal work smoothly could be a once-in-a-lifetime challenge, too.

By William C. Symonds in Toronto, with Laurence Zuckerman in Hong Kong and Robert Neff in Tokyo

KEYS TO BETTER SELLING

In any business, smart selling means focusing the entire company on its customers. That takes changes in everything from how salespeople are hired, trained, and paid to how the CEO does his or her job.

RETHINK TRAINING Forget high-pressure, slam-dunk selling. Sales reps need new skills: They must learn to become customer advocates whose detailed knowledge of their customers' businesses helps them spot sales opportunities and service problems



GET EVERYONE INVOLVED Salespeople should no longer act solo. Everyone

in a company from product designers to plant managers and fi-

nancial officers must be a part of selling to and serving customers

INSPIRE FROM THE TOP Chief executives and top managers must frequently, visibly lead the smart-selling charge in their companies. Having the boss call regularly on customers and lead sales training sessions is a must



Cover Story

SMART

HOW COMPANIES ARE WINNING OVER

Thanks to years of devoted service to its customers, Sears, Roebuck & Co. was once nothing less than where America shopped. It commanded, in the words of writer Donald R. Katz, "the sort of fealty normally reserved for nations and churches." Unfortunately, nations can betray their citizens, and churches can alienate their parishioners. To see what has become of Sears' century-old bond with its customers, look at the scandal unfolding at Sears Auto Centers in California and now other states (page 2). Following a compensation shift from salaries to commissions, investigators say, the sales staff began jacking up their prices by recommending unnecessary work on customers' cars. Serving the customer, it seemed, wasn't the foundation of the business anymore: Meeting stiff sales quotas was.

Poor old Sears. Its case may be extreme—and it denies a systematic scheme to defraud. But its descent from the throne of U.S. retailers to the rogue's gallery of high-pressure peddlers mirrors a broader deterioration in the American art of selling. At Sears and elsewhere, selling once meant knowing your customers and knowing how your products could meet their needs. Hard as it may now be to believe, department stores were once filled with knowledgeable, courteous salespeople, Detroit carmakers once commanded fierce loyalty from satisfied motorists, and key suppliers such as IBM forged deep bonds with industrial customers.

In recent years, however, as products and markets grew more complex, competition intensified, and pressure mounted for short-term results, that kind of selling has become a thing of a more leisurely, genteel age. At too many companies, large and small, selling is now based on hustle and hype rather than customer service. Small wonder that consumers and business customers alike are fed up—fed up with inattentive clerks, shady car dealers, and ignorant product managers. **SALESMAN-IN-CHIEF.** But something is happening. Call it the death of a certain kind of salesman. Many companies are starting to focus on the way they present themselves to their most precious of resources, the customer. They're changing the way they sell, and that means rethinking everything from how salespeople are trained and compensated to the way a corporation is organized and how the chief executive spends his or her time. With their customers ever more value-conscious (BW—Nov. 11, 1991), companies are realizing that they must join the rest of marketing—from product development to pricing and advertising—in delivering perceived benefits.

To make sales forces part of the effort to nurture relationships with customers, some companies are changing their compensation plans. Chrysler Corp. has been paying dealers extra for high scores on customer-satisfaction surveys. And companies such as GE, Reynolds Metals, and

SELLING

DAY'S TOUGHER CUSTOMER

Don't no longer view selling as the job of their sales force alone. Instead, they want to involve everyone from executives to engineers in knowing customers and meeting their needs. At companies such as hardware purveyor Home Depot and Dell Computer, the CEO acts as salesman-in-chief, directing sales training, cheerleading sales staff, and infusing the company with a customer-focused selling culture.

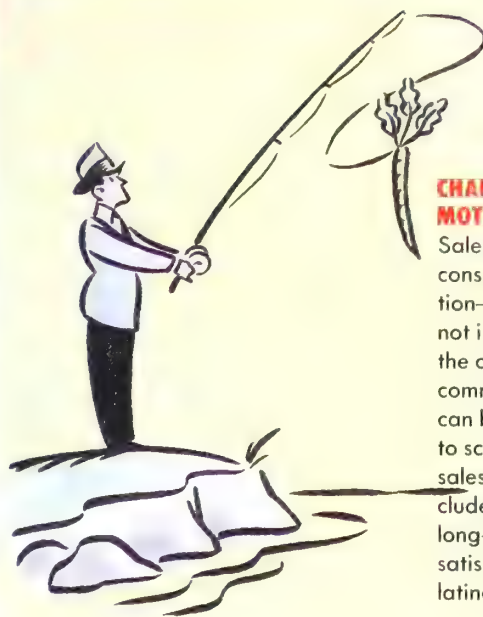
How did the U.S. way of selling go astray in the first place? William A. Band, a customer satisfaction specialist at consultants Coopers & Lybrand, blames the postwar rise of scientific management. "The new theories emphasized narrow expertise in specialized functions inside companies," he says. "We forgot we exist to serve customers."

It didn't help that as many companies grew older and bigger, they moved further away from the spirit of their entrepreneur founders, who had built businesses by meeting needs. Moreover, wrenching financial restructurings distracted many companies still further. For example, Continental Airlines had proud service tradition until its takeover and subsequent merger with People Express Airlines. Elsewhere, the elimination of vast cadres of middle managers has wiped out many companies' institutional knowledge of their customers.

Now, no company can afford to alienate a single customer in its selling approach. In every industry—from computers to steel to shoes and cars—customers have plenty to choose from: U.S. factories are capable of producing some 6 million cars and trucks a year, more than the driving public can buy. More than 600 models of cars and trucks are available in U.S. showrooms. Per capita retail space overall has more than doubled in the last 10 years, even though the number of new adult consumers is growing much more slowly than in earlier decades. As Henry J. Singmaster, vice-president for area management and sales at General Electric Co., puts it: "It's not like we sat here and said, 'Let's change the way we sell.' We had no choice."

'DIMENSION.' Many companies also see selling and service as the latest and best arena for capturing customers. The sales of the 1980s—high quality and low cost—have already been waged and largely decided. "These days, the product has to be great just to be in the game," notes Richard A. Smith, general manager for North American operations for Learning International, a leading sales training firm. So the next place to compete is in sales and customer service. The consulting firm Bain & Co. has developed research showing that boosting a company's customer-retention rate 2% has the same effect on profits as cutting costs by 10%. As Linda Kane, director for development at Stride Rite Corp., puts it, "What the customer wants has taken on a key dimension."

As they look for that selling advantage, leading-edge compa-



CHANGE THE MOTIVATION

Salespeople need constant recognition—but maybe not in the form of the old-fashioned commission. That can be an incentive to scoring a quick sales hit. Instead, include measures of long-term customer satisfaction in calculating compensation.



FORGE ELECTRONIC LINKS

Use computerized marketing and distribution technology to track relationships with customers, make

sure the right products get to the right stores at the right times, and make order-taking easy. It all adds up to high-tech intimacy.



TALK TO YOUR CUSTOMERS

Make frequent phone calls, assign a company em-

ployee to a customer's plant, or drop notes to frequent shoppers. Customers like the

attention, and the added communication makes for better intelligence-gathering.

Cover Story

nies are finding several rules that hold true for practically every business:

Smart selling requires focusing the entire organization, from manufacturing to finance, on sales and customer service. Du Pont Co. spent the 1980s cultivating flexible sales teams recruited from all executive ranks to develop and sell new products. In 1990, a team of chemists, sales and marketing executives, and regulatory specialists noted that corn growers needed a herbicide they could apply less often, and created a product that topped \$57 million in sales its first year.

Smart selling needs the involvement and attention of top management. Bernard Marcus and Arthur Blank, founders of retailer Home Depot, helped prepare their sales training program. At Cincinnati's Fifth Third Bancorp, CEO George A. Schaefer Jr. regularly calls on customers.

Smart selling means building relationships with customers, not just slamming them on a single sale. GE has engineers stationed full-time at Praxair Inc. to help boost productivity at the maker of industrial gases, which uses GE-built electrical equipment. Says GE's Singer: "Customers demand a new intimacy."

Smart selling uses salespeople to solve customers' problems, not just take their orders. Kraft U.S.A.'s sales reps no longer limit their efforts to devising promotions in supermarkets: Now they offer research and tips for improving a store's profits.

As companies grow obsessed with customers, how they train salespeople is becoming increasingly important. Firms such as Learning International and Acclivus, a Dallas firm that trains sales personnel for major corporations, report increasing sales and an emphasis on new approaches, such as teaching team-selling or ways to develop long-term relationships with customers.

Important as training is, compensation may be the thorniest issue in remaking a sales force. As Sears' car-repair woes demonstrate, traditional commission-based systems can encourage the sort of short-term sales approach that tarnishes a company's image. "People behave as they are measured," says Steven Gross, a compensation consultant at Hay Group Inc. That's why the most innovative companies are experimenting with compensation structures that reward salespeople for thinking long-term and working to retain customers. "The No. 1 trend in sales compensation is building customer satisfaction into pay plans," says Craig Ulrich, principal with consultants William & Mercer.

GE, for example, is testing the use of customer-satisfaction surveys as a factor in sales compensation. To set bonuses for everyone from 800-line phone operators to its president, Amer-

ican Telephone & Telegraph Co.'s Universal credit card unit has an in-house staff monitor customer satisfaction. Sears says it will now build such measures into its Auto Center plans.

In some units, such as its power-generation business, GE now proffers team-based bonuses and rewards to get salespeople to think collectively about providing service. Some car dealers have replaced commissioned salespeople with salaried employees who sell cars at fixed prices. Home Depot avoids commissions, relying instead on employee stock ownership plans and a liberal dispensation of stock options.

For many business-to-business vendors, their products and services are now so complicated that the best thing they can offer is a way to make life simpler. Take AMP Inc. in Harrisburg, Pa., the No. 1 producer of electrical connectors, with \$3 billion in sales. Jim Wolowicz, an AMP engineer, sold connectors to makers of copiers, personal computers, and telephones. Problem was, Wolowicz had a hellish time getting quick access to essential product specifications and performance data on AMP's 70,000 individual products. "If I was having this much trouble what were our customers going through?" Wolowicz says.

GETTING DEEP. So AMP has started an ambitious project to record all product data on convenient CD-ROM disks that engineers can scan instantly. Early response to the first batch of disks has been enthusiastic. Says William Blumford, an operations manager in Motorola Inc.'s two-way radio business, "This way is faster, better, and cheaper."

Business customers also want sellers who can forge deep relationships, in part because of the intense pressure to form partnerships with their own customers. Geoffrey B. Bloom is president of

Wolverine World Wide, a \$314 million marketer of footwear. For him, selling even to satisfied clients like J.C. Penney Co. is daunting: "They want resupply in 24 hours, they want computer linkups, they want sophisticated financial analysis of our product's potential." So when a supplier's salesman pitches him, Bloom demands a computer linkup and just-in-time delivery, too: "That's what I have to do to be viable."

Companies had better figure out how to satisfy the likes of Bloom. Today's smarter, tougher, more demanding customer has less patience than ever for the hard sell—and more opportunities to take his or her business elsewhere. But fashioning a better approach to selling is a complex and sometimes frustrating task. Here's a look at how some companies in a broad range of businesses are trying to master that process.

By Christopher Power in New York, with Lisa Driscoll in New Haven, Conn., and Earl Bohn in Harrisburg, Pa.

WHO'S LEADING THE WAY

DU PONT Pioneered team selling 10 years ago: Groups of sales reps, technicians, and factory managers work together to solve customer problems, create and sell new products

MERCK Tops in turning salespeople into experts. Merck trains its reps over 12 months in pharmaceuticals and trust-building sales techniques. Continuing refresher courses are mandatory

REYNOLDS METALS A model of perseverance and innovation. Spent 25 years cultivating Campbell Soup before winning an aluminum-can contract. Has developed team selling to educate customers such as auto makers on new uses for aluminum

WAL-MART STORES Built customer confidence by selling the basics: everyday low pricing, items always in stock, cashiers always available. Demanded simplified selling from vendors such as Procter & Gamble in the form of data linkups and coordinated inventory management

NORDSTROM Proving that department stores need not die. Intense, personalized attention to the customer pays off in high shopper loyalty and steady growth

HOME DEPOT The boss as salesman-in-chief. Founder Bernard Marcus preaches smart selling and follows up with endless training

DELL COMPUTER How to sell a complicated product by phone and mail. The secret: Advanced technology to keep track of the customer and intense training

TOYOTA MOTOR Lexus luxury line uses customer satisfaction as a key measure for setting dealer compensation, turning Lexus showrooms into the new standard for U.S. auto dealerships

GENERAL ELECTRIC Revamping selling on many fronts: It's training salespeople to work long-term with customers, experimenting with team-based compensation, assigning staff full-time to customers' factories, and forging deep relationships with its own suppliers

VANGUARD GROUP A mutual-funds marketer that has perfected the low-key sell. Uses reliable customer service, easy-to-understand products, and superlow fees to lure investors who don't like the hard sell of brokers looking to earn hefty commissions

DATA BW



SHOWROOM
SALUTE: THE
"SATURN CHEER"

SATURN

MAY WE HELP YOU KICK THE TIRES?

With deliberate steps, Jimmy Snyder climbs five rungs up a ladder fashioned of 2x4s. After a pause, he counts to two, releases his handhold, and topples backward, falling into the upraised arms of 17 men and women he barely knows.

Sound like a '60s-style group encounter? Guess again. For Snyder, general manager of a Jacksonville (Fla.) auto dealership, the "trust fall" is part of learning a new way to peddle cars. The auto is General Motors Corp.'s Saturn. The weeklong training session takes place at Saturn headquarters in Spring Hill, Tenn. And the new way of selling involves—hold on to your warranty—listening to customers and actually treating them like human beings.

SMITTEN. For veteran car-hawkers such as Snyder, the new approach represents a radical change. In the past, car salespeople usually trained for their jobs by watching showroom veterans twist customers' arms. Saturn, by contrast, teaches its "sales consultants" to hand tire-kickers printed sheets of fixed prices, explain the no-haggle policy, and invite them to comparison-shop. While most

shoppers expect a fight, "we can erase that kind of fear," says Gordon Walker, a suburban Chicago Saturn dealer. Customers agree: "I liked dealing with the Saturn people. They were low-key," says Saturn buyer Dan Rossmiller of Madison, Wis.

Low-key works. Market researcher J. D. Power & Associates Inc. recently ranked Saturn's customer-satisfaction level right below those of luxury car-makers Lexus and Infiniti and above Mercedes-Benz and Lincoln, whose cars sell for at least \$20,000 more than a four-door Saturn. The Power report gave Saturn particularly high scores for its treatment of customers—some of whom are so smitten they volunteer to schmooze with shoppers on busy Saturdays at dealerships. "I even have my relatives buying them," says Ann Snyder, 67, a 1991 SL1 sedan owner who wants to form a Saturn owners' club in Allentown, Pa.

A top-10 seller since March, Saturn has a scant 17-day inventory of unsold cars, compared with 62 days for the industry. Individual dealers' sales are more than twice the industry average, and some dealers are so low on inventory they've even sold salespeoples' personal cars. All this for an auto that offers good quality but little in the way of innovative styling or engineering.

Keeping an edge in selling will be crucial if Saturn is to fulfill its role as GM's laboratory for new ways to make and sell cars. With GM strapped, the pressure is increasing to reverse Saturn's losses

of \$800 million last year and recoup GM's \$5 billion investment. Saturn will turn a profit only if it can sell about 300,000 or more cars a year—three times what it sold in 1991 and 33% more than Saturn's workers can currently produce.

So a lot depends on the training at Spring Hill. Based in part on programs devised by companies such as Scandinavian Airlines, the Saturn course pinpoints 40 critical "moments of truth," such as greeting customers, that can make a sale and get repeat business. Trainers prompt frank discussions about how hardball selling alienates customers. "Integrity is the key ingredient missing from the car retail business," trainer and veteran salesperson Sharon Smith tells Snyder's class. To break bad habits, trainers lead the class in acting out lessons. The "trust fall" shows how a team can protect members from landing on their heads—an interesting lesson for dealership employees who often compete for the same buyer.

FREE WASH. The classes spur Saturn dealers to better service. For instance, a salesman for Ron Marhofer's dealership in suburban Akron drove 100 miles to Cleveland to get a co-signature for a loan application and expedite a sale. Lots of Saturn dealers now wash customers' cars free of charge, whenever they want. Saturn also tries to create esprit de corps, an alien concept on most car lots. Trainees all learn the Saturn cheer, used at meetings and to salute customers as they drive off in new cars.

Cheerleading is nice, but more sub-

stantive changes are at work. To ensure that dealers make a profit selling small cars without haggling, Saturn built a gross margin of 17% into sticker prices, vs. an average 12% for competing models. And to blunt a salesperson's zeal to fill a quota by any means necessary, Saturn encourages dealers to pay salaries instead of commissions. More than half pay salaries only: Others augment

them with bonuses, tied to sales and customer-satisfaction ratings.

The changes are helping persuade salespeople, a nomadic bunch, to stay put. That's the key to making them feel committed to the Saturn brand and its customers. Marhofer says only 2 of 14 salespeople have left since he opened his Saturn outlet a year-and-a-half ago, compared with 100% annual turnover at his

non-Saturn stores. He's so taken with Saturn's sales approach that he's adopting it at his other dealerships. "This is the way to do business in the future," says Marhofer, who also runs Lincoln-Mercury, Chevrolet, Hyundai, and Mitsubishi outlets. "The old way, as far as I'm concerned, doesn't work anymore." Car buyers can only hope he's right.

By David Woodruff in Spring Hill, Tenn.

FIFTH THIRD

A BANK THAT'S PUTTIN' ON THE BLITZ

The last people Steve Schuholz expected a sales call from were bankers. But one afternoon in February, Elizabeth King and Jeff Weiser, two managers from Cincinnati-based Fifth Third Bank, walked into Schuholz's Village Green Restaurant & Cafe to offer their services. Says Schuholz, Village Green's owner: "It was all very casual, which surprised me."

King and Weiser were finishing what Fifth Third calls a "blitz": visiting companies without appointments to drum up business. Schuholz had planned to refinance a mortgage with a rival. But three days later, Fifth Third had the business. His checking accounts followed. "Generally, lenders are more like 'I'm doing you a favor' kind of people," says Schuholz. "Elizabeth and Jeff showed more energy."

Bankers at Fifth Third blitz prospects all the time, and drop in on longtime customers, too. George A. Schaefer Jr., a West Point graduate and chief executive officer of Fifth Third, got the tactic from his predecessor, Clement L. Buenger, a former life insurance salesman. Now, all Fifth Third officers are expected to put a lot of mileage on their cars to sell the bank's services. Says Schaefer, who often goes on blitzes himself: "You get out there and you realize this is a lot nicer than shuffling papers."

PEP TALKS. The approach would be familiar to insurance agents, of course. But it's unusual for bankers, and the effort to involve everyone would make Fifth Third stand out in any business. It helps that loans, a bank staple but usually a low-margin business, are just one of Fifth Third's products. In fact, employ-

ees get paid nothing extra for making them. But they get cash gifts when they land customers for other offerings—data processing, travel services, payroll, electronic banking, trusts, credit cards, brokerage services, IRAs, and so on.

The combination of blitzing, low overhead, and 12-hour days yields results. Fifth Third's return on assets is a lofty 1.7%—one of the highest rates for a bank its size—and significantly better than the industry average of 1%. Its market capitalization is \$2.5 billion, an impressive showing for a bank that has only \$8.8 billion in assets. By contrast, Citicorp has \$217 billion in assets and a market cap of \$7 billion.

It's a handsome payoff for a simple strategy. A typical blitz starts at 7:30 a.m. Elizabeth King gives a pep talk to 24 other employees, then distributes road maps and a book describing the bank's products. King and James R.

Gaunt, a senior vice-president, set off. The first stop, at R/P International Technologies Inc., a local electronics company, produces nothing. The top executives are out, so King and Gaunt hand their business cards to a woman behind a glass window and leave.

'CALL BOOK.' The next stop, at wholesale carpet distributor Cincinnati-Dayton-Columbus Distributors Inc., goes better. Alan A. Futscher, CDC's chief financial officer, says he gets on fine with rival Star Bank, but he'll talk. After chatting about his alma mater, college football, and his business, Futscher ups and hands over his financial statements. His willingness to divulge this information seems surprising, but Gaunt says it's typical: "They'll say, 'Golly, my own bank doesn't come out to see me.'" Several weeks later, Futscher is still sticking with Star, but King remains hopeful.

Next is Robert Hollander II, president of Hollander Manufacturing, a piping manufacturer. Hollander is pretty happy with his bankers but is interested in Fifth Third's travel, retirement, and profit-sharing administration services. Several weeks later, the payoff: "We went back and got their entire travel account," says King. She estimates that the account will produce roughly \$100,000 in annual airline-ticket sales.

The strategy benefits from the presence in Ohio of hundreds of healthy manufacturers too small to attract the eye of big money-center banks. To augment his sales force, Schaefer has bought several small regional banks and just tried unsuccessfully to acquire Star.

While he makes deals, Schaefer also keeps careful watch on the "call book" that records every staffer's sales visits. The book provides a powerful incentive, says Schaefer. "Most of our people are stockholders. When that call book goes around, everyone knows if you've helped our stock go up. If not, 90 people will be saying, 'Hey, you're not helping.'"

By Laura Zinn in Cincinnati



VILLAGE GREEN'S SCHUHOLZ: FIFTH THIRD WON HIS BUSINESS

CHEERLEADING, AND CLERKS WHO KNOW A WALS FROM AUGERS

Even though it's just 6:30 on Sunday morning, all hands are on deck at the Home Depot store in Doraville, Ga., for "Breakfast with Bernie," a session with Chief Executive Bernard Marcus and President Arthur M. Blank. Employees at dozens of other stores are tuning in to watch Marcus and Blank via Home Depot's own broadcast system. Cheers break out in Doraville when Marcus announces 1991 results: sales up 5%, to \$5 billion; profits up 52%, to \$249 million; sales in stores open a year or more up 11%. Then Marcus rolls a video taping some San Diego employees who helped a foster mom build an addition to her crowded house.

Relentless cheerleading and a healthy dose of schmaltz: It's pure Home Depot. But beyond the atmospherics, Marcus relies on intense training to build a knowledgeable sales force—and offers lucrative employee stock plans to instill deep devotion to service.

TAKE THE LIST. It's the training that makes the 13-year-old, 188-store chain stand out in a crowded business. Home Depot's sales staff can offer on-the-spot lessons in tile-laying, electrical installations, and other projects. New hires, who are often experienced electricians or carpenters, start with five days of classes that include lessons on everything from company history to how to greet a customer. In a recent class at an Orlando store, for instance, assistant store manager Chris Brumfield tells workers to greet shoppers, then ask "What project are you working on?" That way, employees can go through customers' lists with them. "Remember," says Brumfield, "if they forget something, they'll get frustrated. More than likely, they'll be mad at us."

After class, new staffers spend three weeks tethered to a department manager learning how to order, stock, and sell. Employees then learn about the rest of the store, which stocks some 30,000 items of hardware, lumber, tools, lighting, and plumbing supplies, all priced well below the offerings at traditional hardware retailers. "Never just point to another aisle," instructs Brumfield. "Walk the customer over and find someone to help." Salespeople regularly attend seminars on paint, tile, and other merchandise that help them answer questions.

Nonstop questions are what anyone



MARCUS AT "BREAKFAST WITH BERNIE": HOW-TO'S AND HUZAHs FOR SOARING SALES

wearing an orange Home Depot apron can expect. On a recent Monday at the Orlando store, Ernie Palisin, a manager in the floor coverings department, handled at least 50 inquiries. When he showed a woman where she could get some hinges, at least five people flagged him down. He found salespeople to help all five. Some shoppers grumble at the crowds, but most of them give the retailer high marks for its service and selection. Says Atlanta resident Frank Brannon: "When you own an old house like we do, Home Depot is a godsend. You know where you can find me every Saturday morning."

It helps that employees have the right motivation. Commissions are out: Home Depot wants to sell customers what they need, not what boosts a salesman's take. Instead, employees who have worked a year can join a retirement plan that doles out shares. And from assistant

managers on up, employees qualify for other lucrative stock options. Managers also get plenty of autonomy. Palisin in Orlando organized a tile class on his own for customers each Saturday afternoon to help control the backup of questions from shoppers. "At Home Depot, you just do it," he says.

That's not to say that Marcus and Blank don't work to keep Home Depot's selling edge sharp: They spend up to 40% of their time in stores. But can they keep their hands on as the company recruits more and more salespeople? Already, Marcus has had to delegate some management training. Still, he swears his high standards won't slip: "We've been able to preserve our culture from 5,000 employees to 30,000 employees, so I see no reason why we can't go to 100,000." That would add up to an awfully big crowd for Sunday breakfast.

By Walecia Konrad in Atlanta

JEFFERSON SMURFIT

THERE'S EVEN A SCIENCE TO SELLING BOXES

When General Electric Co. expanded a no-frost refrigerator line produced at its plant in Decatur, Ala., in 1990, Jefferson Smurfit Corp. went the extra mile. Smurfit, a major packaging supplier, had a new plant scheduled to come on-line in 1991 to feed the Decatur facility, but GE needed more shipping boxes, pronto. So, Smurfit assigned a coordinator to juggle production from three plants—and sometimes even divert product intended for other customers—to keep Decatur humming. "You don't do that for just anybody," explains Ron L. Yates, Smurfit's

vice-president for sales and marketing. "But we have a relationship with GE that promises long-term volume."

That kind of hustling helped win St. Louis-based Smurfit, the nation's second-largest maker of corrugated packaging, the GE appliance unit's "Distinguished Supplier Award." No wonder partnership selling has become a rallying cry at \$4.5 billion Smurfit and scores of other business-to-business sellers. The days when the packaging company could just make boxes and hawk them are fading. Instead, customers such as GE are increasingly channeling hefty orders to fewer vendors. In return, suppliers must improve quality by sharing proprietary information, delivering products on a sometimes quirky schedule, and joining problem-solving teams.

That kind of selling can also shelter a supplier from the bruising struggle of competing only on price. "Today, it's not just getting the best price but getting

Cover Story

the best value—and there are a lot of pieces to value,” explains Joseph F. Bradley, vice-president for procurement at Emerson Electric Co., a big Smurfit customer that has cut its supplier count by 65%. “You want to earn profits jointly by reducing costs, but you can only work that intensely with a few suppliers who understand the changed role of sales.”

That’s why Smurfit is trying so hard to revamp the way it sells. Smurfit now serves big customers with teams of rep-

resentatives from manufacturing, structural design, and even the executive suite. This fall, an outside consulting firm will train all 600 Smurfit salespeople in partnership-selling techniques.

NO RETREAT. Embracing partnering is not without risk, however. Smurfit has invested heavily in anticipation of continued business from its partners. For example, it bought a plant in LaPorte, Ind., solely to supply Kellogg Co. Because packaging plants usually must be near the customer they supply, Smurfit’s in-

vestment pays off only if it can maintain that relationship for years.

Still, there’s no turning back. “Industrial salespeople are going to have to face the fact that we’re not going back to the old ways,” cautions Yates, who expects partnership sales to account for 20% of Smurfit revenues by 1997. “If you don’t follow your customers in partnering, then you’ll be locked out and your competitor will be the one doing the selling.”

By James E. Ellis in St. Louis

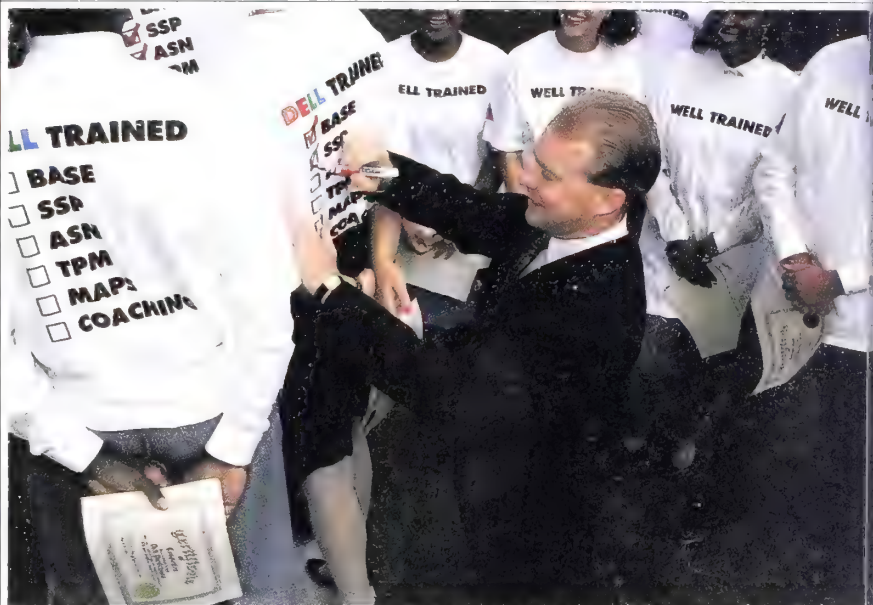
DELL COMPUTER

CUSTOMERS ‘MUST BE PLEASED, NOT JUST SATISFIED’

Friday, 7:30 a.m.: Time for Dell Computer Corp.’s weekly Customer Advocate Meeting, “The Hour of Horror.” Employees, from top managers down to assembly workers, pore over customer complaints and employee suggestions. At a recent meeting, participants hear how a customer received the wrong order; how too many calls reached voice mail; and how 80 internal test calls resulted in four unsatisfactory answers. Whatever problems aren’t fixed in a week get reviewed every Friday until they are solved.

Such unending scrutiny of customer needs is the key to success at Dell Computer, the eight-year-old mail-order PC marketer. Dell’s first-quarter profits rose 96%, to \$20 million, on a doubling of sales, to \$366 million. Behind the stellar numbers is a company credo that makes every employee focus on selling. All employees memorize the “Dell Vision,” which states in part that a customer “must have a quality experience, and must be pleased, not just satisfied.” Says Michael S. Dell, the company’s 27-year-old founder, CEO, and author of the creed: “People who come here and don’t gravitate to that don’t last long.”

DETAIL WORK. Now, the Dell Vision faces its toughest test. Compaq Computer Corp., once a seller of high-priced PCs, is meeting Dell on its own turf with a new PC priced at a low \$899 and beefed-up customer services. Dell has cut prices on its own line, and its 100 highest-paid executives have taken a 5% pay cut. Most analysts expect the Austin (Tex.) company to suffer margin erosion but keep its market share, thanks to its mail-order cost advantage. At Dell, operating costs are 18% of revenues vs. 26% at Compaq. But Michael Dell, who hawked IBM clones from his University of Texas



GRADUATION DAY: MARKS OF HONOR IN A SALES FORCE FOCUSED ON MEETING BUYERS' NEEDS

dorm, is also adding new services and stressing his credo more than ever.

Company credos, of course, are just so much corporate corn unless they’re backed up by the sort of detail work Dell stresses. When one customer complained that he had ordered a Word for Windows package but received a Word for Windows License Pack instead, a customer-advocate meeting redesigned an internal form, distinguishing the two products by placing one in italics. Such actions have helped Dell cut purchase-order errors from 30% of all orders 17 months ago to 3% in June.

Constant training helps Dell maintain its edge. A core program lasting up to five weeks includes course work and such exercises as having an employee unpack a Dell computer. The idea is that staffers experience what customers go through when they open the box. Later, sales employees receive advanced training in such skills as handling big accounts and creating a new sales territory. Students completing each of six courses can check off each course on a T-shirt. A shirt with all the courses checked off is a badge of honor.

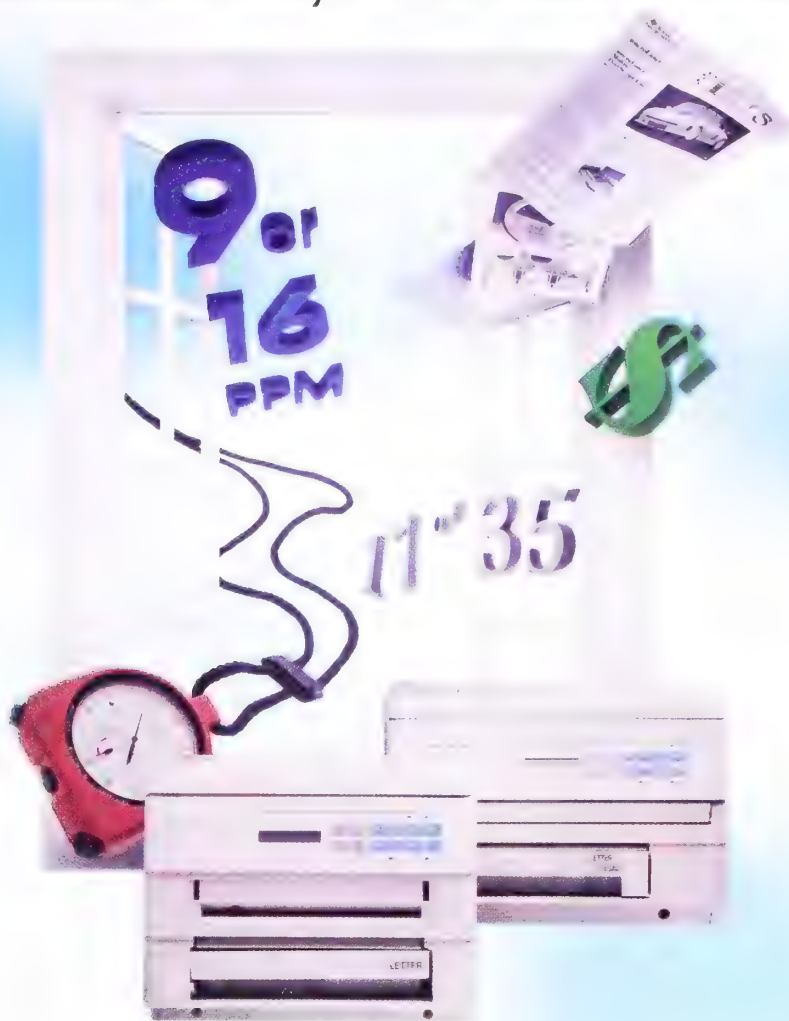
Nonsales executives often team up

with salespeople to clinch a deal. Last year, for example, G. Glenn Henry, senior vice-president of the product group, helped Dell salespeople land the Price Waterhouse account. The accounting firm wanted to know more about Dell’s upcoming products, so Henry produced a prototype of a future Dell PC for the Price Waterhouse team to examine. Henry, an IBM veteran, rarely had such customer contact in his 21 years with Blue. “At IBM, I got the impression that the sales force wanted to control the customer. Here, the sales force sees a team as an advantage,” he says.

At Dell, the contact with customers can reach a high level indeed. Mark Hildebrand, manager of network and computer operations for Banyan Systems Inc., a software services provider that uses more than 100 Dell PCs, rarely goes to meet with CEOs of the companies he deals with. But recently he met with Michael Dell, who surprised Hildebrand. “He asked me what I’d like to see in our machines. He actually took notes.” Yet Dell’s superior brand of selling, no wonder some of the company’s biggest established rivals are taking notes, too.

By Stephanie Anderson Forest in Austin

Four reasons to buy a TI microLaser™ printer.



Now there's a way for you to put the power of Microsoft® Windows™ on paper — microLaser from Texas Instruments.

Designed to be Windows-compatible, there's a microLaser just right for your needs, whether you need a personal or shared printer. Here's why:

- 1. Compatibility** With HP LaserJet® emulation and Adobe® PostScript® software, microLaser easily supports your demanding applications. And with our Microsoft Windows driver, set it and forget it with all Windows applications.

Not only does PostScript give you scalable outline fonts and graphics, it also means that your microLaser works in computing

environments like Windows, DOS®, Apple® Macintosh®, OS/2® and UNIX®.

2. Performance



POSTSCRIPT®
Software From Adobe

When it comes to printing high-quality documents fast, microLaser really makes you look good. At either nine or 16 pages-per-minute, microLaser printers speed you through documents in a hurry. Plus PostScript means what you see on your screen is what you get on paper. You can even turbocharge your microLaser with a RISC processor for blazing fast graphics.

- 3. Reliability** When you buy a printer, you want it to print. And print. And print. That's just what the microLaser does.



Take our personal microLaser Plus for

example. With its high duty cycle of 10,000 pages-per-month* and a standard one-year limited warranty**, you can rely on your microLaser to work the first time, every time, for years.

- 4. Value** Starting as low as \$999†, there's a microLaser designed to fit any budget. From the single user all the way up to a network. Consider this, too: microLaser's average cost per page is only 1.9 cents‡, while some laser printers average around 3.3 cents. The microLaser not only makes sense, it saves you money, too.

For details on the right microLaser for you and the name of the nearest dealer, call

1-800-527-3500.

The microLaser PS17 has earned the 1990 PC World Best Buy award; microLaser PS35 has earned the 1990 InfoWorld Excellence Value award and 4½ mice from MacUser, October 1990.

**TEXAS
INSTRUMENTS**

Features	microLaser Plus Basic	microLaser Plus PS17/PS35	microLaser Turbo	microLaser XL Turbo
PPM	9 ppm	9 ppm	9 ppm	16 ppm
Emulation	HP LaserJet II	HPLJII/PostScript	HPLJII/PostScript II	HPLJII/PostScript II
Processor	68000	68000	RISC/8220	RISC/8220
Fonts	14 HP Fonts	17 or 35 Scalable	35 Scalable	35 Scalable
List Price	\$999	\$1,399/\$1,749	\$2,249	\$3,649

*Based on estimated typical usage. **For more information on service upgrade options, call 1-800-847-5757 in the U.S. and 1-800-268-6314 in Canada. †Suggested retail price — dealer prices may vary. ‡Based on suggested retail price of consumables and approximate page coverage rating for each consumable at 4% black (toner, developer and OPC). microLaser is a trademark of Texas Instruments Incorporated. Microsoft and DOS are registered trademarks, and Windows is a trademark of Microsoft Corporation. Adobe, PostScript and the PostScript logo are registered trademarks of Adobe Systems Incorporated which may be registered in certain jurisdictions. LaserJet is a registered trademark of Hewlett-Packard, Inc. Apple and Macintosh are registered trademarks of Apple Computer, Inc. OS/2 is a registered trademark of International Business Machines Corporation. UNIX is a registered trademark of AT&T. ©1992 TI 76518



IS THE CD ON THE ENDANGERED-SPECIES LIST?

Banks don't seem to mind that savers are bailing out in droves

Just a few years ago, banks couldn't sell enough of them. Bank windows and newspaper pages were plastered with offers of double-digit rates on bank certificates of deposit. Now, it's as if CDs are out of stock. Ads are few and far between, and rates range from unattractive to repugnant. The yield on one-year CDs has dropped 60% from its 1989 levels, from 9.5% to 3.8%. Savings held in CDs have plummeted more than 20% since January, 1991, from \$1.2 trillion to \$947 billion. Some industry watchers say the CD, once the backbone of bank balance sheets, may have outlived its usefulness and could slowly fade away.

Are bankers worried? In a word, no. As they see it, the shrinkage is largely cyclical, a reflection of the recession

and lagging loan demand. "As the economy has weakened and loan demand is way off, there's no need for banks to replace their funds, so they're not aggressively bidding up CDs, or going after deposits," says Robert Heady, publisher of *Bank Rate Monitor*, an industry newsletter.

Bankers insist that as soon as the economy and loan demand pick up, they

can attract all the CD money they need. But once consumers cash in CDs and sample higher-yielding products, they may be reluctant to come back to the banks. "In the future, banks will have to raise CD rates very high to peel customers away from long-term bonds and stocks," says Geoffrey W. G. Nicholson, vice-president in the New York office of Boston Consulting Group Inc.

At the moment, banks appear more interested in retaining profit margins than in attracting new customers. Take the banks' prime-rate cut to 6%, on July 2. "Typically, you would see savings yields on CDs fall by a quarter-point or more over the first six to eight weeks," says Heady. At this time, the banks' savings yields by a

PROFITS ON CDs ARE PALTRY...

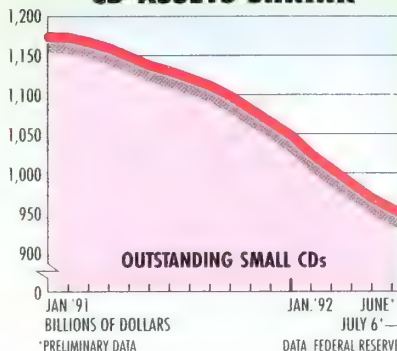
Profit margins in 1991

SMALL CERTIFICATES OF DEPOSIT*	1.0%
LARGE CERTIFICATES OF DEPOSIT	1.7
MONEY MARKET ACCOUNTS	2.0
CHECKING ACCOUNTS	3.3

*UNDER \$100,000

DATA: FEDERAL RESERVE

...AND BANKS ARE LETTING CD ASSETS SHRINK



quarter-percent in the first two weeks after the prime went down.

Banks are blasé about CDs for reasons other than the falloff in lending. The CD has a razor-thin profit margin compared with money-market funds, which pay lower interest, and checking accounts, which often pay no interest (table). Also, CDs tend to attract money that jumps from bank to bank chasing yield. Banks make the most money from customers with whom they can develop long-term, multiple-product relationships.

Some banks, such as Chase Manhattan and Citibank, aggressively market their own families of mutual funds, as well as other families of funds sold through the bank, to holders of maturing CDs. Citi has been especially enterprising. The share of CD money that is rolled over into new CDs at Citi has dropped from nearly 90% in the 1980s to about 70%. The bank has lost \$3 billion in the past 18 months. Still, it claims that close to half of that has been switched into funds and other products marketed by Citi. That produces fee income but doesn't add to a bank's deposit base.

TOUGH SELL. An economic rebound will surely reignite demand for bank loans, and most bankers feel sanguine that the basic appeal of the CD will then bring consumers back. "Many of our customers have a desire for the guaranteed returns and insurance that a CD provides, and that's not going to go away," says W. Mitchell Ratliff, group marketing manager for Chase's retail division.

Yet winning back customers may be tougher than banks expect. Savers turned investors will be accustomed to higher returns on mutual funds. Government-bond funds, for instance, now show a 12.5% average annual return. And baby boomers, who are entering their peak earning years, may not have as much loyalty to banks as their parents. "Baby boomers are more attuned to investment than bank savings," says Edward E. Furash, president of Washington-based consultants Furash & Co. "When rates tick back up, why should they leave stocks and long-term bonds?"

Over the long run, the outlook for the CD is cloudy. Banks for years have been losing loan-market share to the commercial-paper market and nonbank lenders. Many banks have been gravitating toward other sources of income, such as trading. "I think the CD will be extinct in the next few years," says Charles Clough, chief investment strategist at Merrill Lynch & Co. While that may be an overstatement, it's clear that the challenge for banks is to evolve into better marketers of nontraditional products. If they don't, they themselves may be an endangered species.

By Suzanne Woolley and Larry Light, with Leah Nathans Spiro, in New York

SOUPED-UP CERTIFICATES OF DEPOSIT

Tired of certificates of deposit yielding little more than 3% ... but wary of investments that aren't government-insured?

Never fear: High-tech finance has an answer. Banks such as Bankers Trust, Chase Manhattan, and Swiss Bank have begun marketing a dizzying array of gee-whiz CDs powered by such "derivative" instruments as options, futures, and swaps. Like other deposits, the principal is insured up to \$100,000 by the Federal Deposit Insurance Corp. But instead of a set rate of interest, the new CDs offer yields tied to the performance of everything from the Standard & Poor's 500-stock index to the value of Latin American debt.

Called "market linked deposits" or "guaranteed return on investment contracts," among other things, the CDs are the banks' way of getting around U.S. laws prohibiting them from underwriting mutual funds. In some ways, they're better than mutual funds, since they promise to return all or most of a depositor's principal upon maturity.

So far, banks have sold such CDs primarily to big American, Asian, and European depositors willing to plunk down \$100,000 to \$1 million or more. But now, smaller investors are getting a chance. Bankers Trust Co., for one, is offering these CDs in denominations as small as \$2,000. Promising returns linked to the S&P, the certificates are being sold, much as mutual funds are, through Raymond James & Associates Inc., J. C. Bradford & Co., and several other regional stockbrokers.

NO NITROGLYCERIN. These products bear testimony to the increasing sophistication of financial engineering. Although simple in concept, their construction is extremely complex. A typical market-linked CD is basically a package of zero-coupon bank debt and long-term put or call options on an index. On a 5½-year, \$10,000 CD now being marketed to consumers, for example, Bankers Trust will use part of the deposit to buy a call option promising

to deliver 100% of any gain in the S&P over the instrument's life. It will use the rest of the deposit to fund a discounted zero-coupon bond whose value will rise to \$10,000 over the same period. So investors will get their principal back even if the S&P declines.

If the S&P climbs 100%, the deposit would double in value, for a 12.7% annual return. For investors who'll take more risk, Bankers Trust offers 5½-year CDs that promise to return 110% of any S&P increase. But if the index is unchanged or down at maturity, investors will get only 90% of their \$10,000 back. In any event, FDIC insurance will cover that 90%. Managing Director Joshua A. Weinreich says, "We don't want to sell nitroglycerin to our clients."

Investors could replicate some of these products by trading options. But brokers' commissions could wipe out potential profits. "We are offering one-stop transactions," explains Chase Manhattan Corp. Vice-President Kathleen T. Smith.

Bankers Trust says it uses hedging to avoid potentially big risks in offering payoffs linked to the Nikkei stock average, Latin debt, or the S&P. So to hedge an S&P certificate, BT may enter into swaps with other banks or buy equity-index futures or stocks themselves, using any dividends or trading revenues to help pay for the downside protection it promises.

Whatever the technique, the variety of market-linked instruments is expanding. Facing inroads from banks, Merrill Lynch & Co. is preparing to offer small investors 5-year instruments that resemble market-linked CDs in every way but their FDIC protection. Perhaps because of that, Merrill is pledging to pay 115% of any gain in the S&P. Even if the market falls, Merrill says it will repay investors' principal in full. Bankers Trust is mum on what it will offer next. But for yield-starved savers, the competition can't help but produce intriguing opportunities.

By William Glasgall in New York

A TYPICAL NEW-AGE CD

- ISSUER** Bankers Trust
- MINIMUM INVESTMENT** \$10,000*
- TERM** 5½ years
- MINIMUM RETURN** 100% of initial deposit
- MAXIMUM RETURN** Initial deposit multiplied by 100% of any gain in Standard & Poor's 500-stock index
- FDIC INSURANCE** On initial deposit

*SECOND FOR INDIVIDUAL RETIREMENT ACCOUNTS DATA: BANKERS TRUST CO.

BEARS ARE COMING OUT OF THE WOODS

Listless economic news is eroding investor confidence in stocks

The stock market has begun to resemble that other great American disappointment—Ross Perot. Equities were on a tear just weeks ago, with the Dow Jones industrial average climbing above 3400 to an all-time high in early June. But stocks have seesawed sickeningly since then, as cheerless economic tidings have gnawed away at investor confidence. Opinion is growing on

go—the reelection of President Bush, despite the uncertainty posed by Perot. But in the wake of his withdrawal, the zeitgeist on Wall Street has shifted in favor of a Democratic victory, and that will continue to dog the market unless the polls shift in favor of Bush. Bhirud, who heads the Bhirud Associates research boutique, is advising his clients to shift some of their funds into cash as

fiscal restraint, no matter who is elected. That would be a downer for stocks.

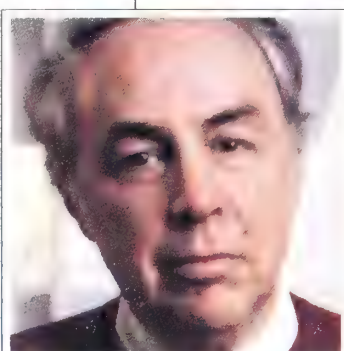
■ **The dollar.** The increase in the German discount rate is giving investors the willies, and it sent the U.S. market tumbling on July 20. Skeptics maintain that weakness in the dollar will continue to put upward pressure on bond yields and thus hurt the market.

■ **Small-investor bullishness.** That has long been a danger signal, and bears maintain that red lights are flashing. They note that the market for initial public offerings was robust until recently and that industry statistics show investor cash flowing into equity mutual funds. "Most people are still positive. People are fully invested," notes Wien.

So where should investors place their money if they insist on buying stocks? Interest-rate-sensitive stocks—banks and utilities, for example—are favored

'Earnings expectations are just too high. I think the bull market ended in February for most stocks.'

E. MICHAEL METZ
OPPENHEIMER & CO.



'You can only bang your head against the wall for so long before you decide the wall is harder than your head.'

GREG A. SMITH
PRUDENTIAL SECURITIES INC.

Wall Street that stocks are expected to repeat the kind of listless performance that they endured in 1990—and can be expected to decline, or tread water at best, for the rest of this year.

Only the most bearish stock-watchers expect a market calamity. But even analysts who believe the market is fundamentally sound, such as widely followed market maven Suresh Bhirud, are turning cautious. So are market strategists employed by major brokerage houses, despite an institutional tendency to accentuate the positive. Among the Wall Street luminaries who are predicting a spiritless second half are E. Michael Metz of Oppenheimer & Co., Morgan Stanley's Byron R. Wien, and Greg A. Smith of Prudential Securities Inc. "Everybody's struggling to make money," laments Smith, "but you can only bang your head against the wall for so long before you decide the wall is harder than your head."

Here are some of the key arguments being advanced by the bears:

■ **The election.** Until recently the market had assumed—"discounted," in market lin-

part of a "defensive posture until the Presidential elections."

■ **The economy.** It's starting to scare people. Sure, economic weakness has been keeping interest rates low, thereby sustaining bond prices and making lofty price-earnings ratios seem more palatable. But low rates are no longer generating all that much enthusiasm, and analysts have lately been raising the possibility that continued malaise may cut the legs out from under corporate earnings. "Earnings expectations are just too high," says Metz. "It's unreasonable to postulate accelerating earnings momentum in the second half of 1992 and a 25% increase in earnings in 1993." Metz thinks 1993 will be a time of

'There's a lot of negative sentiment—a lot of professional bearishness around. But there are times when the professionals are right.'

BYRON R. WIEN
MORGAN STANLEY & CO.



by otherwise stock-averse market watchers because of continued depressed rates. Also getting the nod are companies that are expected to buck the economy and show strong earnings growth. Smith puts in that category such old standbys as Gillette Co. and Coca-Cola Co., and Metz believes that insurance companies such as American International Group and Washington National and drugmakers Bristol-Myers Squibb and SmithKline Beecham should do well in the months ahead. But there isn't much else that tickles his fancy. Says Metz: "I think the bull market ended in February for most stocks."

One silver lining in the otherwise cloudy picture is the fact that, well, the picture is so cloudy. Negative sentiment is considered good among folks of a contrarian bent—on the theory that the conventional wisdom is often wrong. "There's a lot of negative sentiment—a lot of professional bearishness around—concedes Wien. "But there are times when the professionals are right." And that may be one of them.

By Gary Weiss in New York



■ **HOME ON THE RANCH:**
BERGER'S FUND HAS
BEATEN THE S&P 500
FOR THE PAST FIVE YEARS
BY A HEFTY SEVEN
PERCENTAGE POINTS.
HIS CREDO: PUT MONEY
ONLY IN STOCKS WITH HIGH
EARNINGS POTENTIAL

MUTUAL FUNDS

THE MOUNTAIN MAN OF MONEY MANAGEMENT

Denver's Bill Berger has attracted \$150 million in '92—so far

William M. B. Berger has been running Berger 100 Fund for nearly 20 years, but until last year, few outside of Denver had ever heard of him. In 1991, the 66-year-old money manager hit a bonanza, racking up a humongous 88.8% total return—more than twice the return of the average growth fund and nearly three times the Standard & Poor's 500-stock index.

That performance put Berger on the map. The Berger 100 has ballooned from \$15 million at the start of 1991 to \$367 million now. Half the new money has come in this year. The number of shareholders has rocketed from 2,500 to 50,000—most of whom expect big things from this 6-foot, 5-inch Coloradan. But so far, 1992 hasn't worked out quite that way. The fund is down 11.6%, while the S&P 500 is about even. True, investors are fickle, and as Kurt Brouwer, a San Francisco investment adviser, says, "hot money can go as fast as it can come." Nevertheless, Berger's shareholders are sticking with the mountain man of money management, and new ones are appearing every day.

"Performance comes in lumps," says Berger, whose fund has been in the red before. The fund slid 6% in 1990 and 20% in 1984. Yet over the long term, Berger has had the right stuff. The fund racked up a 16.5% average annual return for the five years ended June 30—a hefty seven percentage points better than the

S&P 500. And BUSINESS WEEK's 1992 Mutual Fund Scoreboard gave the fund its highest rating.

Berger is holding fast to his philosophy of investing: Put money only in stocks with high earnings potential. That's not easy when many of last year's winners—such as T² Medical and BMC Software—are getting battered in this year's market, which has taken a fancy to cyclical companies such as General Motors Corp. But he's also faring better than many of last year's top funds because of some fleet-footed moves. For one, he dodged the biotech rout by selling late last year, and he scored points with foreign stocks that many competitors didn't even consider.

Berger sets high standards for choosing a growth stock. The company must have at least three years of 20% annual growth in earnings, and a return on equity twice that of the stock market—or about 20%. Says Berger: "Earnings growth is the only thing that works."

The danger in this strategy is that the stocks are pricey—with high price-earnings ratios and price-book value ratios—and thus vulnerable to bad news. Look at Stac Electronics, a software company. It plunged 37% on July 21, after reporting disappointing profits. Berger sold, too, taking a \$1.65 million loss on 300,000 shares. Why? "The cockroach theory," explains Rodney L. Linafelter, Berger's co-manager. "When one [bad earnings

report] shows up, there's another one behind it."

But Berger has been picking winners, too. In early July, he paid \$28 for International Game Technology, which makes slot machines. It's now 31½. About the same time, he paid \$28 for Synoptics Communications Inc., which makes computer networking hubs. It's now 33.

Berger's Israeli investments—made before the Labor Party's victory set off a rally—are paying off, too. ECI Telecom Ltd., purchased at 21, is now 27. Lanet Data Communications is up 68%. Berger is upbeat on Israel because of its highly educated work force and government-backed research and development.

OX-CART PLUTOCRAT. Berger is also bullish on Mexican stocks. "Bush and Clinton favor free trade," says Berger. Besides, Mexico "could live without it. They're doing a fine job, *gracias*, dealing with the rest of the world." So he's buying Internacional de Cerámica, which makes and exports ceramic tiles, and is adding to holdings in bank stocks Grupo Fin Banamex and Grupo Fin Bancomer.

Berger hails from a long line of money managers. His forebears rode an ox-cart to Colorado from Ohio in 1862 and founded what became the Colorado National Bank of Denver, financing much of the state's growth. Five generations later, Berger, who went to Yale University with George Bush, still manages old Denver money in a \$68 million private portfolio.

Berger spends weekends at his 100-year-old Estabrook ranch near Bailey, Colo., and lunches frequently with quirky intellectuals at Denver's all-male Cactus Club. Soliciting business there is verboten, but so what? With four dollars coming into the fund for every one going out, Bill Berger doesn't need to beat the bushes for investors. Now that he's on the map, they find him.

By Sandra D. Atchison in Denver

BY GENE G. MARCIAL

DON'T HANG UP ON MILLICOM JUST YET

For a company in the telecommunications business, Millicom isn't communicating that well with, of all places, Wall Street. Up as high as 26 a share in early 1990, its stock is now "unloved and almost unfollowed on the Street," notes Alf Humphries, an analyst at the investment banking firm Hanifen Imhoff, in Denver. The stock has continued to slide this year, from 10 in January to 7% on July 22. But don't count Millicom out. Things will get better soon, say some pros.

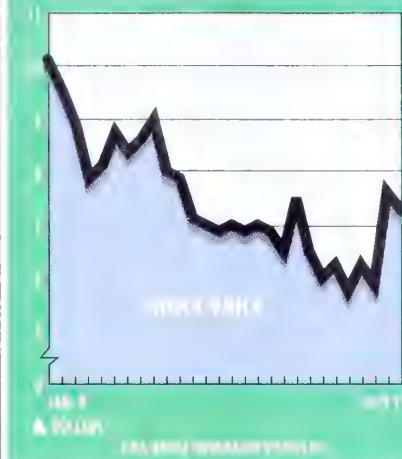
Here's why: Millicom, a provider of cellular telephones, personal-messaging (paging), and satellite-television services in 15 countries, is scheduled to take its Luxembourg-based joint venture, Millicom International Cellular (MIC), public in Europe. Millicom owns 46% of MIC, and Kinnevik, a Swedish conglomerate, controls 49.5%.

MIC will sell 14%, or 7 million shares, of its new 50 million shares at around 10 a share. With the offering, Millicom's stake will be cut to 39.5%, or nearly \$200 million. Based on Millicom's 14.8 million shares outstanding, that 39.5% translates into an added value to the holding company's stock of \$13.50 a share, estimates one New York money manager who attended a "due diligence" meeting on the deal held in New York on July 20. Millicom recently completed a series of "roadshows," or meetings with potential big investors, in Europe, where interest in the new stock is very high.

'HIDDEN ASSET.' This money manager says Millicom will definitely be worth much more after the MIC offering. Taking the unit public will "uncover the hidden asset" that MIC really is, he says. MIC owns, or has major stakes in, and operates cellular networks mostly in developing countries, including Costa Rica, Ghana, Mexico, Pakistan, Paraguay, and the Philippines. And it has plans to operate in at least 20 other countries, including India, Italy, and Turkey, says this pro.

MIC has about 25,000 subscribers and expects to more than triple this figure by yearend, says Hanifen Imhoff's Humphries. In 1991, cellular usage per subscriber averaged 270 minutes per month, vs. about 160 minutes in the U.S., with an average monthly bill of

MILlicom MAY BE SIGNALING AN UPTURN



\$115 (vs. about \$85 in the U.S.).

"Cellular phones give poor countries a quick, relatively cheap way to obtain late 20th century telecommunications technology, and MIC is well-positioned to provide it," he says. With the huge pent-up demand for phones in Third World countries, Humphries thinks MIC is worth \$900 million. Adding that to Millicom's other operations, including two satellite TV stations that operate in the U.S. and overseas, a pay telephone joint venture in the U.S., and a mobile radio operator, he puts Millicom's breakup value at 29 a share.

THIS FOODMAKER MAY START COOKIN'

When money manager Ed Wachenheim III saw Rykoff-Sexton shares tumble from 21 in February to 15 in June, he started buying. Companies such as Rykoff, which are "strong in solid businesses that come into disfavor because of temporary earnings adversities," are the stocks to buy in this kind of market environment, says Wachenheim, chairman of Greenhaven Associates, which manages some \$475 million. "We like to buy straw hats in the winter."

Wachenheim notes that Los Angeles-based Rykoff, the nation's second-largest publicly owned food-service company, with revenues of \$1.5 billion, is a bargain compared with the industry's No. 1 player, Sysco, where revenues top \$10 billion. Wachenheim says Rykoff, which trades on the Big Board, sells at about its book value of \$16 a share, while Sysco trades at four times its \$6 book. And, he adds, Rykoff is

cheap based on the revenues-to-market-value ratio: Rykoff sells at 8.4 times, and Sysco sells at only 2.1 times.

That's not all. Earnings, which have been squeezed by declining food prices in the past two years, are ready to turn up strongly, says Wachenheim. He believes Rykoff will benefit when the economy takes off. It supplies 40,000 products to 106,000 customers such as restaurants, hospitals, and schools. Foods account for 66% of its sales, cookware and dishwashing equipment 18%, and janitorial supplies 16%.

Wachenheim sees profits rebounding from fiscal 1992's \$1.09 a share, to \$1.45 in the fiscal year ending Apr. 30, 1993, \$2.30 in 1994, and \$3 in 1995. Based on these estimates, he thinks the stock could be worth 45 a share in 12 to 18 months.

A PINE BOX PLAY

There's nothing as certain as death, and in these uncertain times, investing in funeral homes may give some new life to a portfolio. The nation's biggest company in the funeral services business is Service Corporation International, which owns and operates 660 funeral homes and 160 cemeteries nationwide and in Canada. With Service's earnings in an upswing and its shares on the rise—from 9 a share in 1990 to 18 in recent days—some big investors say there's a good chance that the stock will hit the low 30s in another 12 months.

One bull is Todd Richter, senior-vice president at Dean Witter Reynolds, who estimates that this recession-proof company will earn (adjusted for a recent stock split) \$1.20 a share this year and \$1.35 next year, vs. 1991's \$1.02. He says Service's strategy of acquiring growing and "quality" funeral homes will continue to lead to widening profit margins and rising earnings. Some big investors in Service include J. P. Morgan, which owns 10% of the stock, and Eagle Asset Management, with 7%.

Service owns some of the best-known funeral homes including New York's Frank E. Campbell and Riverside. It also is constructing 22 new funeral homes this year.

A big source of business may well be overseas, primarily in Europe and Asia, says Chairman and CEO Bill Heiligbrodt. But even without expanding abroad, he sees revenues rising from \$643 million in 1991 to \$790 million in 1992 and to \$865 million in 1993.

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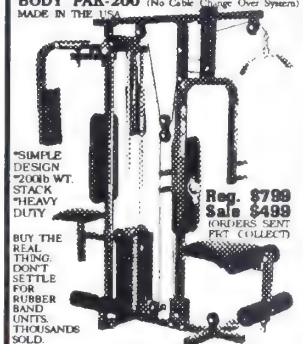
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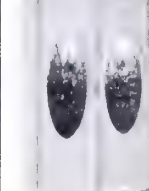
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DID DEC MOVE TOO LATE?

The comeback costs are staggering

DEC HEADQUARTERS: THE COMPANY PLANS TO LAY OFF 15,000 EMPLOYEES, AND FOURTH-QUARTER LOSSES MAY HIT \$2 BILLION

In the end, Kenneth H. Olsen simply had too soft a heart. Despite his infamously gruff exterior, the 66-year-old founder of Digital Equipment Corp. still wanted to run the \$14 billion minicomputer company as a giant family business, with him as the benevolent father. Even as the company's payroll rose to 126,000 employees, he still made sure that everybody got a turkey at Thanksgiving. After 35 years, he wasn't about to change.

But the computer industry had changed—drastically and irrevocably. With powerful desktop computers stealing minicomputer sales, the DEC of holiday turkeys, lifetime employment, and profit margins fat enough to pay for it all was a thing of the past. The times called for a new DEC, a far leaner and meaner operation. With the old DEC hem-

orrhaging, on July 16, Olsen finally was pressured to resign.

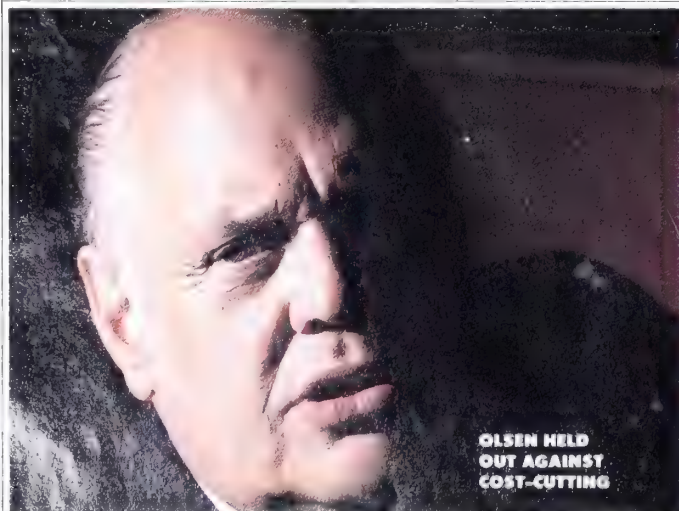
In a conference call, Olsen told directors that he will step down on Oct. 1. At the same time, he nominated a new CEO to carry out the drastic cost-cutting he couldn't stomach—and to rebuild DEC around a promising new microprocessor technology called Alpha.

TECHNICAL PROWESS. Olsen's handpicked successor, Robert B. Palmer, is a 180-degree turn from the cantankerous, unpredictable founder. Palmer, 51, is regarded as a well-organized and articulate manager. And in contrast to the intensely puritanical Olsen, Palmer is a debonair divorcee who drives a Porsche Targa.

But, like Olsen, the new boss is also an entrepreneur who made it on his technical prowess. Palmer worked his way

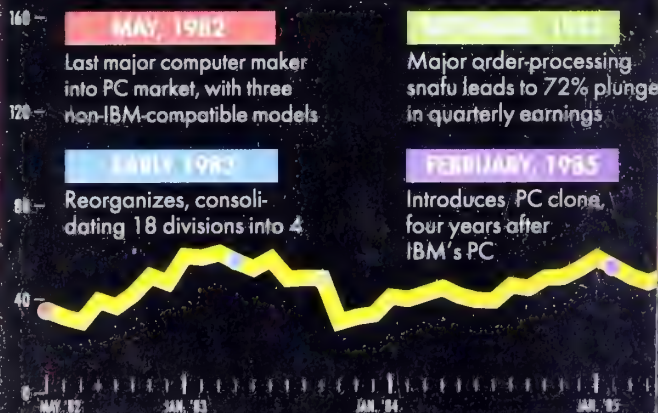
through engineering school and, while still in his twenties, co-founded memory-chip maker Mostek Corp. (page 64). Palmer's background in the cutthroat semiconductor business has conditioned him to continuously push down costs. A onetime chip designer, he has also been a driving force in developing DEC's Alpha chip, the key to turning the company around.

Palmer's appointment was approved by the board on July 22. He had already won over directors during his frequent appearances at board meetings. "The presentations he's made are most impressive," says Thomas L. Phillips, a director and retired chairman of Raytheon Co. While Olsen dragged his feet on cost-cutting, Palmer showed the board what could be done. After taking over manufacturing in late 1990, Palmer



OLSEN HELD OUT AGAINST COST-CUTTING

DEC'S TUMULTUOUS DECADE



quickly shuttered 10 factories. His staff cuts account for more than half of the 10,000 positions DEC has eliminated in the last two years. Just last month, Palmer convinced directors to allocate \$25 million for a chip plant that he argued is crucial for the Alpha effort and DEC's rebound.

These contacts with the board helped propel Palmer past longtime DEC executives John F. Smith, senior vice-president for operations, and Software Vice-President David L. Stone, who had been seen as likely successors to Olsen. Palmer sells himself well and sells his programs well," says MasPar Computer president Jeffrey C. Kalb, who brought Palmer to DEC in 1985 to run semiconductor operations. Neither Palmer nor Olsen would speak with BUSINESS WEEK.

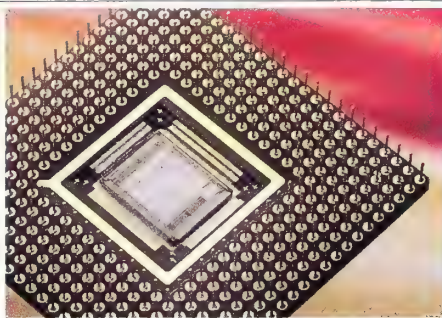
RUMORS FLY. With Palmer's appointment, investors and customers breathed a collective sigh of relief. Despite losses, Olsen had held out all this spring against the cost-cutting moves that top executives and his board demanded. Analysts predicted more losses, and by late June, the stock had drifted to a nine-year low of 33 1/4, a dismal skid from an all-time high of 199 (chart). As the company closed the books on fiscal 1992, ended June 30, rumors began to spread on Wall Street that the board had reached its limit and was ready to force the legendary founder out.

Insiders say that Olsen and the board had clashed over everything from sales commissions to the company's direction. Rumors of his departure boosted DEC's stock to 38. When the news finally came, the stock jumped another four points, and some analysts issued new purchase recommendations. "A lot of people believed Ken was the problem, not the solution," says Marc G. Schulman, an analyst at UBS Securities Inc.

The euphoria quickly passed as the enormity of Palmer's task became apparent. The question remains whether

it's too late to do anything more than avert disaster. By delaying DEC's day of reckoning, Olsen had raised the costs to staggering heights. DEC is not only years behind rivals in cutting bloated costs and driving into new markets but it is also no longer even profitable. Mini-computer sales have been stagnant for years, and VAX revenues are now plunging as customers wait to buy replacement machines based on the new Alpha chip, due out late this year. The result: DEC is expected to show a \$300 million operating loss for the quarter ended June 30, its third quarterly loss in a row. Schulman forecasts operating losses in the next two quarters totaling as much as \$208 million.

So, Palmer's first order of business will be to preside over a jarring layoff.



DEC HAS A LOT RIDING ON THE ALPHA CHIP

Instead of paring workers gradually and giving them months to search for new jobs, as Olsen had done, Palmer is expected to move decisively. Some 15,000 employees, including 8,000 in the U.S., will be fired and given a week to clear out. The numbers are so big that the company plans to stagger the layoffs over the next few weeks to avoid overloading unemployment offices in New England. Severance pay and other downsizing costs are expected to push the fourth-quarter net loss as high as \$2 billion.

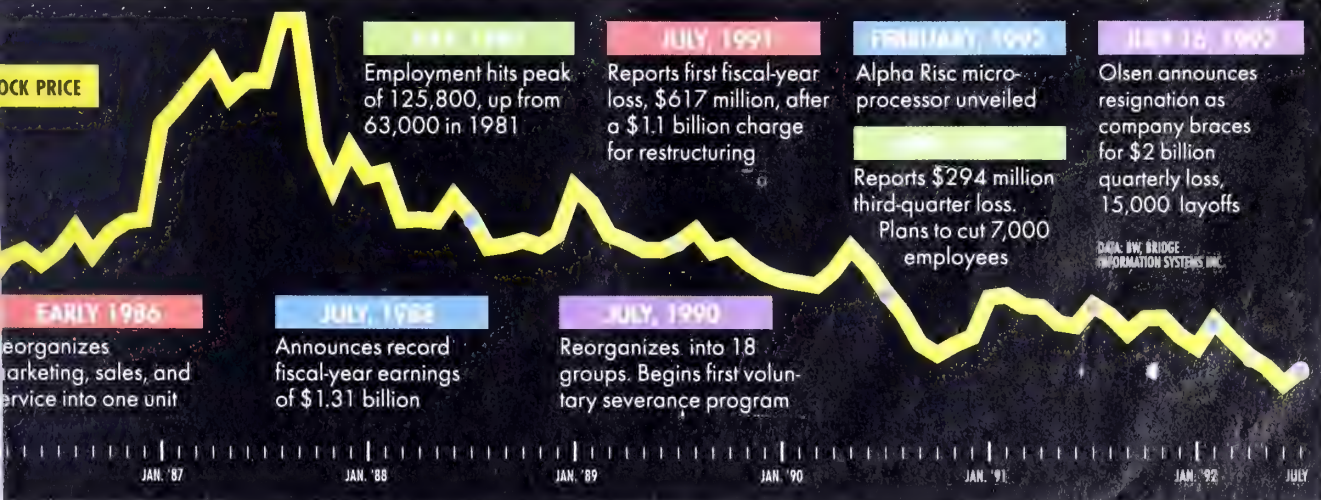
With DEC running an operating loss, these charges are tearing through the

company's cash. By June, 1993, estimates PaineWebber Inc. computer analyst Stephen K. Smith, the company will have burned up \$1 billion of its current \$1.5 billion in cash. As a result, DEC will have to borrow just to fund operations over the next few quarters.

PAINFULLY LATE. To turn DEC around over the long term, Palmer has to make Alpha a hit. The technology, a so-called RISC (reduced instruction-set computing) microprocessor, will replace the VAX minicomputers, based on technology first designed in the mid-1970s. In recent years, DEC's share of the mini market has fallen to 14%, while IBM's hot-selling AS/400 series has given Big Blue a 27% share. DEC is also counting on Alpha to help grab a share of the fast-growing workstation market, where it trails Sun Microsystems Inc. and Hewlett-Packard Co.

On paper, at least, Alpha is the fastest RISC microprocessor yet. "Alpha is clearly a leapfrog technology," says Wes Melling, program director of midrange computing research at consultants Gartner Group Inc. And he says DEC's huge library of VAX software should make Alpha-based machines appealing in the broad office-computing market, in contrast to other RISC machines, which have been used primarily by engineers. Another potential boost for Alpha will be Microsoft Corp.'s Windows NT, a new operating system that the software giant is now adapting for the Alpha chip. That should allow Alpha machines to run all sorts of popular PC software. That's in addition to the VAX software and OSF/1, a version of Unix.

Still, DEC's entry is painfully late into a market where IBM, Hewlett-Packard, and Sun have been shipping products for several years. And these companies have also signed up other computer makers to use their RISC chips. On IBM's team, for instance, are Apple Computer, Motorola, and Groupe Bull of France. DEC, by contrast, has only one sizable Alpha partner



CAN 'GQ BOB' GIVE DEC A WINNING MAKEOVER?

Robert B. Palmer is one to seize the moment. In 1970, as a young chip designer and co-founder of Mostek Corp., he visited Sprague Electric's lab in North Adams, Mass. In a corner, he spied an odd contraption Sprague had abandoned, recalls L. J. Sevin, another Mostek founder and now a venture capitalist. Palmer realized it could be adapted to fix a nagging problem Mostek faced in building memory chips. He was right and his quick insight "had huge commercial implications," says Sevin.

That ability to salvage failed ideas should serve him well as CEO of \$14 billion Digital Equipment Corp. In his

Palmer's smarts and toughness have served him well since his hardscrabble youth. He was born in Gorman, Tex., a peanut-farming community 90 miles southwest of Fort Worth. In an interview last year, Palmer recalled leaving home at age 15 after a dispute with his father. He lived on his own and with friends until finishing high school. Embarrassed at having to wear his friends' cast-off clothes, Palmer says he sought self-respect by excelling at school. He graduated as class valedictorian in 1958.

At Texas Tech, in Lubbock, Palmer waited tables while pursuing degrees in math and physics. He joined Texas Instruments Inc. in 1966, just as the microelectronics revolution was heating up, but left after a few years with fellow engineers to form Mostek, now a division of France's Thomson-CSF. With success, Palmer has loosened up. Now, he drives a Porsche, wears expensive double-breasted suits, and sports a year-round tan. At staid DEC, he's known as GQ Bob. **RULE-BREAKER.** He's also known for being fast-moving and decisive in a company that has been neither. Even while closing 10 plants, Palmer has managed to make DEC a major force in chip technology. Palmer also has pushed a total-quality management program to trim production times. One strategy: to rely more on local suppliers to keep tabs on the quality of parts.

Palmer's success makes him an anomaly at DEC. He's the outsider who flourished in its taciturn engineering culture. He has gotten along, rising quickly, but has broken many rules along the way. To put DEC at the forefront in chips, for instance, Palmer hired key outside talent from Thomson and Siemens.

Still, running an entire company—never mind the world's third-largest computer maker—poses challenges that Palmer has never encountered. But Sevin, his longtime buddy, predicts that DEC's new CEO will rise to the occasion. "Bob's smart enough to know what he doesn't know," Sevin says. That could be a cardinal virtue for DEC's new CEO.

By Gary McWilliams in Boston

ROBERT B. PALMER

BORN 1940, Gorman Tex. Left home at 15 and supported himself while attending High School

COLLEGE Texas Tech University. BS in mathematics, 1962; MS in physics in 1965

1969 Co-founded chip startup Mostek

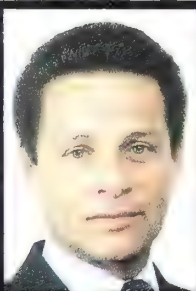
1980 Mostek acquired by United Technologies. Palmer stays on as head of chip operations

1985 Joins Digital Equipment, named vice-president of semiconductor operations in 1986

1990 Promoted to vice-president of worldwide manufacturing operations

1992 Named president and CEO

DATA: DIGITAL EQUIPMENT CORP.



seven years at DEC, Palmer has proved he can make things happen. As head of semiconductor operations, he got prototypes of DEC's Alpha, its RISC chip, working in 20 days, not the usual 20 weeks. Getting Alpha to market quickly is crucial for DEC, which badly needs a successful product to replace the 500,000 VAX minicomputers customers have installed. Palmer's role in the project impressed DEC directors and helped pave his path to succeed founder Kenneth H. Olsen. "He has the leadership qualities," says director Thomas L. Phillips, retired chairman of Raytheon Co. "He knows how to make a plan and abide by it."

so far, Italy's Olivetti. Japan's Kubota Corp. and supercomputer maker Cray Research Inc. plan to use the Alpha chip, but not in great numbers.

To leapfrog his competition, Palmer will have to shore up DEC's badly demoralized organization. Olsen's increasingly idiosyncratic management style over the past few years has driven dozens of exasperated executives and managers from the company. The most recent defection was Pier Carlo Falotti, president of DEC Europe, who has been named President of ASK Computer Systems Inc., a California software maker. Falotti "was very unhappy," says Bruno D'Avanzo, a former DEC Europe executive and now a managing director at Olivetti. "Olsen's erratic habits really got to him."

MARKETING FAILURE. A series of reorganizations and strategy shifts have also left customers confused. In the 1980s, DEC surged in the market with a clear-cut message: Its VAXes, ranging from desktop to mainframe-caliber machines, all ran the same software and could therefore be easily networked anywhere in the world. That message was lost as DEC cast about for new growth strategies in recent years. Peter Daboul, vice-president for information systems at Massachusetts Mutual Life Insurance Co., says now he is in "a wait and see mode" regarding DEC. Although it uses four large VAXes at the home office and smaller ones in its branches, Mass Mutual has no plans to buy more DEC gear. "The key is how their new captain carries out this course correction," Daboul says.

Indeed, Palmer's success is anything but certain. His background in microchips and operations give him a good foundation. But DEC also badly needs marketing skills—an area where Palmer has yet to make his mark. "He doesn't have that much background in computers or, for that matter, in marketing or sales," says MasPar's Kalb. He believes that DEC somehow lost the ability to communicate the value of its VAX software. That, in turn, has made it increasingly difficult to sell its relatively high-priced machines in a sea of cheap hardware. "It was a failure of marketing," Kalb explains.

If Palmer's rapid rise, as insiders say, stemmed from his ability to sell himself to top management, DEC's resurgence may well depend upon his ability to sell DEC to customers who have grown skeptical. In Olsen's old DEC, the hard sell was frowned upon. The puritanical founder thought such tactics were unseemly. For the new DEC, they may mean survival.

By Gary McWilliams in Boston



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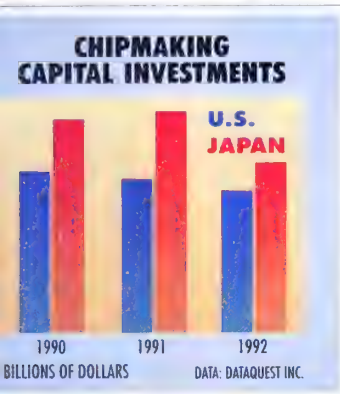
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Developments to Watch

EDITED BY OTIS PORT

NOW, THOSE BIG CHIP BUDGETS ARE TOO MUCH EVEN FOR JAPAN



To win the largest chunk of the world semiconductor market, the Japanese relied chiefly on cash. Whenever the industry entered one of its periodic downturns in the 1980s, the Japanese outspent U.S. rivals—and were ready for the recovery. No more, perhaps. Japan now has so much excess chip capacity that its producers are slashing capital budgets, according to a study by Dataquest Inc. The San Jose (Calif.) market watcher says Japanese spending on chip production will fall 24% in 1992. Worldwide spending, by comparison, will dip 9.5%. Moreover, much of a 7.6% decline in the U.S. stems from a 50% drop in Japanese investments in U.S.-based plants, to about \$200 million this year. Top-tier U.S. chipmakers won't cut back at all, says Dataquest. On a related front, VLSI Research Inc., another San Jose market researcher, reports that U.S. suppliers accounted for 7% of the \$9.9 billion spent worldwide on chipmaking equipment last year, up three points from their 1990 share.

CORDLESS PHONE THAT CAN THWART EAVESDROPPERS

To industrial spies and other snoops, the millions of cordless phones in use are gold mines of information. Conversations can be plucked from the air by means of a police-type scanner, and with increasing ease. The latest no-cord technology offers clearer sound and longer ranges—up to half a mile. That's because the new phones broadcast signals at 900 megahertz, or 20 times the frequency of current models. Cincinnati Microwave Inc. figures executives and consumers will pay a small premium for cordless privacy. The company has developed a phone, to be marketed in October by its short division for about \$300, that thwarts eavesdroppers with "spread-spectrum" technology, which is similar to the encryption method the military uses in secure radios. The signals between the handset and the base unit are digitized, making them unintelligible to humans, and the transmission randomly hops among various frequencies within the 900-MHz spectrum. To bring the cost down to the range of other 900-MHz models, Cincinnati Microwave has developed special microchips that keep the handset and base in sync.

METHANE IN THE ATMOSPHERE: SOMEWHAT OVERBLOWN THREAT?

Among scientists there is wide concern that carbon dioxide (CO₂) and methane gases being spewed into the air will lead to global climate change because of the greenhouse effect. But that outlook stems from certain assumptions. One is that the amount of methane in the atmosphere will continue to rise. That's worrisome because methane causes more than 10 times as much warming as CO₂.

Now comes evidence that this assumption may be wrong. After examining samples of air collected from 37 sites around the world from 1983 to 1990, climatologists led by Edward J. Dlugokencky of the University of Colorado have discovered that the increase in methane levels seems to be slowing. In fact, observes Dlugokencky in the journal *Nature*, if the trend continues, methane should peak by the year 2006. The result: less global warming than predicted. Dlugokencky suggests the ebb in growth results from better methods of capturing the methane escaping from oil wells plus a downward shift in two historical trends: ever-rising numbers of cattle and rice paddies, both major producers of methane.

AN INTEL 586 CLONE IS ALREADY WAITING IN THE WINGS

Once Intel Corp. unwraps its 586-generation microprocessor, expected in August, the Santa Clara (Calif.) company may not have the market to itself for very long. At least one cloner could wade in with a competitive design in perhaps only weeks, not the year or more it took to clone Intel's 486 and 386 chips. NexGen Microsystems Inc., a startup in nearby San Jose, claims that it has already designed a 586-compatible chip that churns through as many as 100 million instructions per second. NexGen is now waiting to see Intel's specifications before putting the final touches on its design and shipping it off to contract producers, including Hewlett-Packard Co.

Although NexGen believes its 586 chip will run any software developed for Intel microprocessors, the two designs won't fit into the same circuit-board socket. So NexGen's customers will have to develop a special motherboard, the primary circuit board in desktop computers. While that's expensive, a similar strategy seems to be working for Cyrix Corp. in Richardson, Tex., which sells 486 and 386 "workalike" chips. NexGen's investors include Compaq Computer, Mitsui, and Olivetti—with the biggest stake, 10%, held by Ascii Corp., a Tokyo microprocessor and chip-design specialist.

'HIGH FIBER'? SO WHAT? 'FOUR GRAMS OF FIBER'? GREAT!

How do shoppers evaluate the nutritional information on packaged foods? To find out, Madhubalan Viswanathan, an assistant professor of marketing at the University of Illinois in Champaign-Urbana, timed college students as they compared labels that had either numeric data or descriptive statements—such as "4 grams of fiber per serving" or "rich in fiber."



The students went for the numbers: They made choices faster than when their selections were based on descriptive phrases. Then, extending his work, Viswanathan turned up this surprise: Brands featuring numerical data were easier to remember. Exactly why is still being studied, Viswanathan says, "but I'm afraid it's for the wrong reason—you don't have to think so much about what the numbers mean." Still, his findings are food for thought, for the industry and for nutrition-labeling experts at the Food & Drug Administration.

GLOBAL INNOVATION: WHO'S IN THE LEAD?

BW's new ranking of nearly 200 top companies tracks technological strength based on U. S. patents

Francis Narin is no ordinary detective. So when a consulting firm called three years ago and asked him to investigate a division of a major chemical company, he didn't start following anyone or probing financial records. Instead, he fired up the vast data base at CHI Research Inc., the tiny research firm he runs in Haddon Heights, N.J., and began his line of inquiry: analyzing patent trends.

All Narin knew was that the chemical company's division had a reputation for innovation—and that the consultant's unnamed client was thinking of buying the unit. A search of CHI's data base of more than 1 million U.S. patent records turned up a surprising fact: Many of the division's key patents belonged to just two researchers. Then, a second survey showed telltale evidence that something was afoot: The pair had stopped filing patents under the divisional name and were inventing for the parent company instead. "In anticipation of divestiture," Narin surmises, "the company had moved their key people out." Narin calls this selling "the empty technological shell." Though he can't say for sure what role the CHI report

played, the acquisition never took place.

The technique Narin drew on is bibliometrics, a form of statistical analysis used to scan patents and scientific papers to figure out which ones are most important. Increasingly, savvy compa-

nies are employing it to spot technological trends, unearth competitors' moves before they're apparent in the marketplace—and even help plan acquisitions, partnerships, and overall strategic direction. "You can spot right away the lead-

ers and the followers in different technology areas, and you can detect companies shifting technological emphasis—or even strategies," attests Donald Milstein, manager of planning, coordination, and evaluation for Mobil Research & Development Corp., the oil company's technology arm.

Based on this technique, BUSINESS WEEK has teamed up with CHI Research to create a new Patent Scoreboard that tracks corporate technological power. It separates 197 of the world's top companies into 14 industry groups and ranks them by technological strength—a measure derived from the number and quality of patents (glossary, page 70).

As with any analytical tool, the new tables don't tell the whole story. They cover only U.S. patents—and while most important foreign inventions are also patented in the U.S., this isn't always true. Then, too, in order to keep research secret, some technologically

A TEST OF HIGH-TECH STRENGTH

The number of patents granted by the U.S. government is a traditional test of high-tech strength. But CHI Research Inc. has come up with more sophisticated measures, based on earlier patents cited as building blocks in new patents. The **current impact index** measures how often a company's patents are cited relative to those of all other companies. The 1.45 for Toshiba, for example, means its patents are cited 45% more than average. CHI multiplies the index by number of patents to get **technological strength**, the basis for this ranking. **Technology cycle time** is the median age in years of patents cited in a company's new patents. The shorter the cycle time, the faster the company is developing new technology



Company (headquarters country)	Number of U.S. patents 1991	Current impact index 1991	Technological strength	Technology cycle time 1991
TOSHIBA (Japan)	1156	1.45	1677	5.4
HITACHI (Japan)	1139	1.43	1633	5.7
CANON (Japan)	828	1.45	1201	6.0
MITSUBISHI ELECTRIC (Japan)	959	1.24	1190	5.1
EASTMAN KODAK (U.S.)	887	1.34	1186	7.8
IBM (U.S.)	680	1.71	1161	5.9
GENERAL MOTORS (U.S.)*	863	1.32	1139	7.9
GENERAL ELECTRIC (U.S.)	923	1.16	1069	8.8
FUJI PHOTO FILM (Japan)	742	1.42	1056	5.8
MOTOROLA (U.S.)	631	1.54	969	5.5
AT&T (U.S.)	487	1.84	895	5.3
PHILIPS (Netherlands)	768	1.02	781	6.0
NISSAN MOTOR (Japan)	385	1.91	736	4.7
TEXAS INSTRUMENTS (U.S.)	380	1.87	709	6.2
NEC (Japan)	482	1.46	706	5.0
MATSUSHITA ELECTRIC (Japan)	561	1.24	694	5.6
DU PONT (U.S.)	631	1.06	669	9.7
XEROX (U.S.)	353	1.75	619	6.8
FUJITSU (Japan)	382	1.56	596	5.3
SIEMENS (Germany)	610	0.97	589	6.6
3M (U.S.)	374	1.39	519	10.9
HOECHST (Germany)	575	0.88	507	8.6
MINOLTA CAMERA (Japan)	315	1.61	506	5.1
AMP (U.S.)	275	1.84	505	7.1
SHARP (Japan)	388	1.27	493	5.4

*Including EDS and GM Hughes Electronics

DATA: CHI RESEARCH INC.

strong companies restrict the number of patents they file. In addition, Japanese companies are being pressured by their clogged government to curtail filings for minor patents—a trend that could mean lower Scoreboard numbers if they follow suit in the U.S. Despite these caveats, the new Scoreboard shows key technological trends. The new power of Japanese companies stands out, challenging the stereotype that they are mere copycats. Japan holds down the first four slots, led by Toshiba Corp.'s technology strength rating of 1,677. The best U.S. performer is

11th-place Eastman Kodak Co., at 1,186, with IBM a step behind. The top European: Philips Electronics, No. 11 overall.

COMEBACK KIDS? Within industry sectors, the story is more ambiguous. Given the prowess of Japanese auto makers, it's no surprise that only General Motors Corp. cracks the top five in tech strength. But Detroit may be catching up. Over the past five years, GM has gained an average of 10% a year, and Ford is up 16% annually. And while Nissan's rating has risen, Toyota's and Honda's have declined. Japan's carmakers downplay the numbers. True, they're patenting less, but they've requested. "But that doesn't mean technological development has slowed down," says Toyota Executive Vice-President Hiro Sasaki. Still, Detroit has recently gained market share, and some experts say its technological comeback may be a factor.

The changes that the domestics have made have been primarily in the technology," says Thomas F. O'Grady, president of Integrated Automotive Resources Inc., a Wilmington, Del.) consultant.

Among individual companies, General Electric Co. shows a seemingly ominous decline. Over the past two decades, GE has been awarded more U.S. patents than any other company. But since

1987, output has slipped an average of 8% a year—and its technological strength rating has fallen an average of 11% annually. GE attributes the decline to its downsizing from 30-odd businesses

to just 13—and says it remains the world leader in most of those fields. On a brighter note, U.S. technology-strength leader Kodak has won 30% more patents annually since 1987, pushing into emerging fields such as electronic imaging. Its tech strength has jumped 44% a year. In 1991, Kodak trailed Canon Inc. by just 15 points.

The new Scoreboard will mark the first time many companies have heard of bibliometrics. But others are well aware of it. Kodak forages through patent data to track particular inventors—to see what competitors are doing and whether they are moving star scientists to hot new areas. Philips has used patent analysis to track 30 rivals in 39 fields, from software to optical recording.

The uses of bibliometric data go far beyond intelligence gathering, however. Mobil Research & Development first used the technique in 1987, as part of an

assessment of its technological competitiveness. As expected, the analysis showed Mobil leading the pack in the discovery of zeolites, synthetic catalysts used in oil refining and petrochemical production. But researchers were stunned to find that competitors were often better at patenting applications for the very materials Mobil had discovered. "Obviously, we were missing out on a potential opportunity," says Milstein. Over the next two years, Mobil R&D upped by a third the budget and personnel devoted to exploiting new zeolites. Without giving specifics, Milstein says the moves will pay off with a slew of new applications.

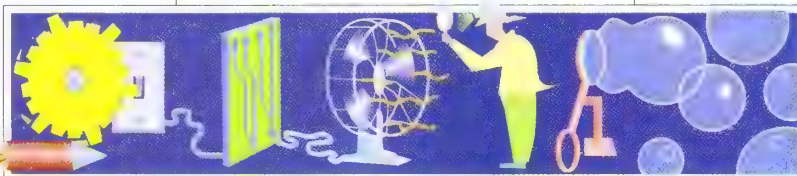
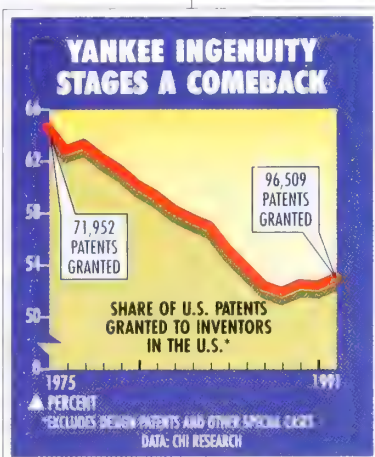
EARLY WORD. These same kinds of studies—charting output from individuals, universities, and corporate labs—can be done with scientific papers instead of patent data. The pioneer in this area, the Institute for Scientific Information in Philadelphia, assesses the importance of papers by determining how often they're cited in other reports. Moreover, several groups in Europe and the U.S. use ISI's raw data for their own studies. Leonard Simon, president of the Center for Research Planning in Philadelphia, says it's possible to pick up hot new fields or shifts in the direction of research before they're common knowledge.

Whether it tracks patents, papers, or both, bibliometrics can reveal vital information. And even if it spots nothing ex-

perts in a given area don't intuitively know, the technique can provide hard data that corporate executives need in order to act on the judgments of their technical staff.

What's more, advocates say, now and then they see something fundamental. "We can show companies that their research universe is in the midst of a whole revolutionary process—and that down the line, all their products will be obsolete because the science will change," Simon adds. Even enthusiasts warn against basing decisions solely on such analysis. But this technique gives companies another way to guard against being blindsided by technological change.

By Robert Buder in Boston, with John Carey in Washington, and Neil Gross and Karen Lowry Miller in Tokyo



THE COMPANIES WITH HIGH-IMPACT PATENTS...

Company (headquarters country)	1991 Current impact index
CORDIS (U.S.)	2.25
INTEL (U.S.)	2.16
PROCTER & GAMBLE (U.S.)	2.08
ALZA (U.S.)	1.96
NISSAN MOTOR (Japan)	1.91
TEXAS INSTRUMENTS (U.S.)	1.87
AT&T (U.S.)	1.84
NIPPON TELEPHONE (Japan)	1.84
AMP (U.S.)	1.84
FUJI HEAVY INDUSTRIES (Japan)	1.83
MAZDA MOTOR (Japan)	1.81
MITSUBISHI MOTORS (Japan)	1.78
XEROX (U.S.)	1.75
COLGATE-PALMOLIVE (U.S.)	1.72
IBM (U.S.)	1.71

...AND THOSE CLOSEST TO THE CUTTING EDGE

Company (headquarters country)	1991 Technology cycle time
FUJI HEAVY INDUSTRIES (Japan)	4.1
MAZDA MOTOR (Japan)	4.5
PIONEER ELECTRONIC (Japan)	4.5
MITSUBISHI MOTORS (Japan)	4.6
RICOH (Japan)	4.6
NISSAN MOTOR (Japan)	4.7
OLYMPUS OPTICAL (Japan)	4.8
NIKON (Japan)	4.8
INTEL (U.S.)	4.9
AISIN SEIKI (Japan)	5.0
NEC (Japan)	5.0
SONY (Japan)	5.0
MITSUBISHI ELECTRIC (Japan)	5.1
MINOLTA CAMERA (Japan)	5.1
TOYOTA MOTOR (Japan)	5.2

DATA: CHI RESEARCH INC.

PATENT SCOREBOARD

GLOSSARY

NUMBER OF PATENTS: The number of patents granted by the U.S. Patent Office. The number excludes design patents and other special cases

CURRENT IMPACT INDEX: A measure of how important a company's patents are based on how often they're cited in other patents, which shows how frequently they're used as the foundation for other inventions. For example, a company's 1991 index is computed by first calculating the average number of times the patents it was granted in each of the previous five years were cited in new patents granted in 1991. Those figures are divided by the average number of 1991 citations for all U.S. patents in each of the

previous five years. That yields a citation ratio for each year. A ratio of 1.0 means that the company's patents were cited as often as the overall average. A ratio of 1.2 means that the company's patents were cited 20% more often than average. Finally, the citation ratio for each of the five years is averaged to get the 1991 rating.

TECHNOLOGICAL STRENGTH: The number of patents times the current impact index.

TECHNOLOGY CYCLE TIME: The median age of the U.S. patent references cited in the company's new patents. The lower the number, the more quickly the company is replacing one generation of inventions with another.

DATA: CHI RESEARCH, INC

COMPANY	NUMBER OF PATENTS			CURRENT IMPACT INDEX			TECHNOLOGICAL STRENGTH			TECHNOLOGY CYCLE TIME		
	1991	AVG 1987-91	% CHANGE 1987-91	1991	AVG 1987-91	% CHANGE 1987-91	1991	AVG 1987-91	% CHANGE 1987-91	1991	AVG 1987-91	% CHANGE 1987-91
1 AEROSPACE												
GROUP COMPOSITE	1555	1404	5	1.04	1.01	0	1611	1425	6	10.2	11.1	4
1 GM Hughes Electronics	374	282	18	1.27	1.36	-3	473	381	17	7.7	8.5	3
2 United Technologies	329	302	6	0.99	0.97	1	325	293	9	10.7	11.5	4
3 Boeing	201	190	5	1.01	0.88	4	202	167	10	14.3	14.2	1
4 Rockwell International	184	166	2	1.05	1.07	0	194	177	1	8.3	8.6	2
5 Raytheon	102	88	5	1.08	1.11	-4	110	98	3	10.0	10.4	1
6 Textron	82	83	0	0.86	0.83	0	71	69	1	13.2	14.2	1
7 Litton Industries	52	73	11	1.01	1.11	1	52	81	-12	7.0	7.9	6
8 Lockheed	45	58	8	1.07	1.04	0	48	62	-4	10.4	11.6	-3
9 British Aerospace	48	40	33	0.88	0.67	26	42	29	79	10.5	11.0	-1
10 Rolls Royce	57	50	10	0.73	0.70	3	42	35	16	10.0	12.9	4
11 McDonnell Douglas	46	36	9	0.86	0.90	-1	39	33	13	7.9	10.8	7
12 General Dynamics	35	35	1	1.06	1.02	-1	37	36	0	9.0	14.0	14
2 AUTOMOBILES												
GROUP COMPOSITE	2334	2350	0	1.36	1.40	-1	3168	3300	-1	6.6	7.4	6
1 Nissan Motor	385	338	7	1.91	1.76	5	736	601	13	4.7	5.4	8
2 General Motors †	506	449	7	1.35	1.27	3	683	574	10	8.1	9.3	5
3 Mazda Motor	210	158	12	1.81	1.80	0	379	286	14	4.5	5.1	4
4 Toyota Motor	257	375	-14	1.45	1.48	2	372	555	-12	5.2	6.4	7
5 Honda Motor	249	355	-10	1.13	1.47	-10	281	532	-18	6.5	6.3	0
6 Ford Motor	234	193	14	1.19	1.23	1	278	239	16	8.9	9.5	6
7 Daimler-Benz	275	268	3	0.86	0.91	-3	236	244	-1	9.8	10.5	3
8 Chrysler	97	94	6	1.29	1.43	-2	125	133	1	7.1	9.3	15
9 Mitsubishi Motors	36	34	10	1.78	2.48	-7	64	83	5	4.6	5.1	7
10 Porsche	50	50	2	1.03	1.03	9	52	51	8	9.3	11.1	5
11 Volvo	23	19	14	0.61	0.79	-7	14	15	7	11.4	13.8	7
12 BMW	13	18	-1	0.94	0.95	0	12	16	-4	7.3	7.4	-14
3 CHEMICALS												
GROUP COMPOSITE	6299	5792	6	0.82	0.83	1	5167	4809	7	10.0	10.0	0
1 Du Pont	631	523	9	1.06	1.03	3	669	539	11	9.7	9.7	0
2 Minnesota Mining & Mfg.	374	333	9	1.39	1.33	2	519	442	11	10.9	10.3	-3
3 Hoechst	575	536	7	0.88	0.78	8	507	422	15	8.6	9.4	4
4 Bayer	706	657	7	0.66	0.72	0	463	474	8	9.5	9.1	1
5 Dow Chemical	439	480	-3	0.80	0.83	-3	353	397	-6	10.6	10.6	-2
6 Ciba-Geigy	430	384	7	0.79	0.78	3	342	300	10	9.2	9.5	1
7 BASF	464	406	10	0.66	0.68	-2	308	275	8	9.6	9.7	2
8 Monsanto	196	148	10	0.90	0.73	7	176	110	20	11.6	10.9	-1
9 Imperial Chemical Industries	278	239	13	0.63	0.84	-10	176	196	2	10.0	9.5	-4
10 Olin	121	87	18	1.44	1.17	32	174	105	54	9.5	10.2	3
11 Air Products & Chemicals	123	102	14	1.27	1.13	10	156	115	16	8.7	9.7	5
12 W. R. Grace	135	111	17	1.07	1.15	-1	145	127	17	10.5	10.6	3
13 Shin-Etsu Chemical	143	85	30	0.99	1.09	-5	141	91	28	7.2	8.2	2
14 Union Carbide	152	151	-1	0.89	1.06	-4	135	160	-6	9.5	10.2	2
15 Rhône-Poulenc	210	231	-5	0.59	0.57	2	123	132	-3	9.1	10.0	4
16 Sumitomo Chemical	161	144	12	0.62	0.80	-4	100	116	9	10.3	8.6	-8
17 American Cyanamid	114	119	2	0.79	0.71	11	90	85	14	8.6	9.5	3
18 PPG Industries	108	119	-3	0.82	0.84	1	89	100	-2	11.6	11.3	-3
19 Akzo	104	90	8	0.76	0.79	-2	79	71	8	10.9	10.9	-3
20 Dynal	133	97	28	0.58	0.72	8	77	71	43	11.2	10.6	0

† excluding GM Hughes Electronics

PATENT SCOREBOARD

COMPANY	NUMBER OF PATENTS			CURRENT IMPACT INDEX			TECHNOLOGICAL STRENGTH			TECHNOLOGY CYCLE TIME		
	1991	AVG 1987-91	CHANGE 1987-91	1991	AVG 1987-91	CHANGE 1987-91	1991	AVG 1987-91	CHANGE 1987-91	1991	AVG 1987-91	CHANGE 1987-91
21 Degussa	143	115	12	0.52	0.51	11	74	58	22	9.5	10.7	7
22 Mitsubishi Kasei	89	85	7	0.67	0.78	-8	60	66	-1	7.9	8.2	2
23 FMC	79	76	1	0.67	0.59	3	53	45	4	13.4	12.8	-2
24 Asahi Chemical Industry	50	65	-6	1.01	0.99	-1	51	63	-8	9.8	9.3	-10
25 Montedison	90	96	11	0.55	0.58	2	50	56	16	9.5	9.8	-2
26 Henkel	93	129	-6	0.50	0.62	-4	46	82	-7	12.4	12.2	-1
27 VEBA	83	88	4	0.54	0.51	3	45	45	4	10.6	11.2	1
28 Toray Industries	40	44	-1	0.76	1.00	9	30	44	-10	8.8	9.4	6
29 Kureha Chemical	35	53	9	0.69	0.95	1	24	51	-4	7.3	7.2	2

COMPUTERS

GROUP COMPOSITE	3270	2727	8	1.58	1.61	-1	5177	4389	8	5.9	6.3	4
1 International Business Machines	680	612	4	1.71	1.73	-1	1161	1062	4	5.9	6.2	3
2 Motorola	631	447	13	1.54	1.54	-2	969	691	11	5.5	6.1	7
3 Texas Instruments	380	308	20	1.87	1.74	3	709	549	35	6.2	5.7	3
4 Fujitsu	382	303	10	1.56	1.61	-2	596	488	8	5.3	5.7	4
5 AMP	275	236	6	1.84	1.89	0	505	447	5	7.1	8.1	5
6 Hewlett-Packard	327	216	28	1.20	1.26	-5	392	267	24	5.6	6.5	5
7 Digital Equipment	142	92	74	1.51	2.01	-15	214	161	49	6.2	6.4	3
8 NCR	92	97	0	1.50	1.53	-3	138	148	-4	6.5	6.7	0
9 Tektronix	103	147	-6	1.33	1.37	-1	137	202	9	5.2	6.1	6
10 Intel	58	42	27	2.16	2.15	1	125	89	31	4.9	5.0	-3
11 Unisys	99	102	-6	1.16	1.32	-2	115	135	-9	6.9	7.2	2
12 Zenith Electronics	56	68	11	1.29	1.33	5	72	92	15	5.2	7.4	6
13 Groupe Bull	45	57	-2	1.38	1.56	2	62	89	0	7.6	6.5	-5

ELECTRICAL

GROUP COMPOSITE	7631	7506	1	1.17	1.22	-2	8938	9180	-2	6.7	7.4	5
1 Toshiba	1156	1007	7	1.45	1.45	-1	1677	1460	6	5.4	5.7	5
2 Hitachi	1139	1096	4	1.43	1.48	-2	1633	1618	3	5.7	5.7	3
3 Mitsubishi Electric	959	744	17	1.24	1.19	1	1190	890	18	5.1	5.9	7
4 General Electric	923	1023	-8	1.16	1.20	-3	1069	1238	-11	8.8	8.6	-2
5 NEC	482	458	5	1.46	1.65	-4	706	752	2	5.0	5.3	5
6 Siemens	610	689	-2	0.97	1.06	-5	589	729	-7	6.6	7.5	5
7 Westinghouse Electric	377	494	-12	0.96	1.11	-9	362	561	-19	9.0	9.6	3
8 Allied-Signal	269	307	-7	1.01	0.94	2	270	289	-6	11.1	11.3	-1
9 Thomson	266	221	7	0.94	1.08	-7	250	237	0	7.9	8.4	-1
10 Sumitomo Electric Industries	173	147	15	1.29	1.35	1	223	199	17	5.5	7.3	7
11 Sundstrand	215	158	18	1.01	1.07	3	218	170	24	11.3	12.7	4
12 Alcatel Alsthom	196	189	3	0.84	0.95	-4	164	180	-1	8.0	8.3	2
13 Honeywell	169	179	1	0.86	1.08	-6	146	194	2	7.0	8.3	2
14 ITT	135	179	11	1.07	1.35	-4	145	248	-14	7.4	7.4	3
15 General Electric PLC	124	124	5	1.14	1.18	-2	141	146	3	6.7	7.5	2
16 ABB Asea Brown Boveri	192	262	-12	0.65	0.81	-9	124	217	-20	8.7	9.8	5
17 Oki Electric Industry	97	84	18	1.25	1.55	-6	121	131	20	5.4	5.4	3
18 Emerson Electric	105	96	7	0.99	0.99	-1	104	95	6	10.5	11.0	1
19 McDermott International	47	54	-4	0.52	0.78	-12	25	43	-15	13.0	10.6	-6

ELECTRONICS

GROUP COMPOSITE	6573	5923	7	1.31	1.38	-1	8579	8168	5	6.0	6.2	2
1 Canon	828	850	1	1.45	1.71	-4	1201	1456	-3	6.0	5.8	-2
2 Eastman Kodak	887	607	30	1.34	1.15	10	1186	732	44	7.8	7.9	-1
3 Fuji Photo Film	742	707	12	1.42	1.60	-3	1056	1121	7	5.8	5.7	-1
4 Philips Electronics	768	780	0	1.02	1.07	-4	781	837	-4	6.0	6.7	5
5 Matsushita Electric Industrial	561	457	7	1.24	1.26	-3	694	578	5	5.6	6.1	3
6 Xerox	353	276	13	1.75	1.65	5	619	458	20	6.8	7.2	3
7 Minolta Camera	315	262	42	1.61	2.10	1	506	569	52	5.1	5.0	0
8 Sharp	388	323	10	1.27	1.38	-4	493	438	6	5.4	5.8	1
9 Sony	305	307	-1	1.45	1.69	-9	442	524	-9	5.0	5.1	2
10 Ricoh	317	257	14	1.38	1.52	-1	439	390	13	4.6	5.1	6
11 Konica	229	172	22	1.45	1.53	5	333	268	29	5.6	6.0	1
12 Pioneer Electronic	182	146	17	1.38	1.17	9	251	173	26	4.5	5.1	5
13 Olympus Optical	164	174	3	1.30	1.33	2	213	232	6	4.8	5.2	7
14 Sanyo Electric	136	106	10	1.23	1.22	2	167	130	11	5.1	5.7	1
15 Murata Mfg.	127	104	9	1.02	1.00	0	129	104	11	7.0	8.8	10
16 Nikon	85	87	-7	1.14	1.35	-2	97	117	-11	4.8	4.8	3
17 Alps Electric	97	143	-8	0.87	1.01	-3	85	148	-9	5.9	6.2	6
18 Polaroid	39	69	-16	1.04	1.05	8	41	72	-9	7.8	8.7	3
19 Black & Decker	52	103	-21	0.61	0.77	-9	32	82	-28	13.8	12.2	-5

PATENT SCOREBOARD

COMPANY	NUMBER OF PATENTS			CURRENT IMPACT INDEX			TECHNOLOGICAL STRENGTH			TECHNOLOGY CYCLE TIME		
	1991	AVG 1987-91	CHANGE 1987-91	1991	AVG 1987-91	CHANGE 1987-91	1991	AVG 1987-91	CHANGE 1987-91	1991	AVG 1987-91	CHANGE 1987-91
7 FOOD												
GROUP COMPOSITE	737	656	7	1.25	1.20	3	920	791	10	11.6	11.7	0
1 Procter & Gamble	163	145	7	2.08	1.82	5	339	266	14	10.1	11.3	3
2 RJR Nabisco Holdings	101	82	15	1.45	1.19	7	146	99	22	13.2	12.6	-1
3 Colgate-Palmolive	72	67	15	1.72	1.45	11	124	98	26	10.8	9.6	-5
4 Unilever	129	129	3	0.85	1.03	-4	109	133	-1	11.7	11.7	-2
5 Philip Morris	100	84	6	0.82	0.82	4	82	68	7	16.0	14.6	-3
6 Kao	76	60	14	0.80	0.88	2	61	52	14	9.1	8.7	-4
7 Nestle	62	60	9	0.72	0.76	12	45	46	26	12.2	13.1	2
8 Ajinomoto	34	30	3	0.68	0.97	8	23	28	11	8.4	8.1	-18
8 FUELS												
GROUP COMPOSITE	2312	2256	2	0.91	0.98	-3	2115	2202	0	10.9	10.5	-2
1 Mobil	374	332	8	1.27	1.36	-3	475	452	6	9.7	9.3	-3
2 Exxon	268	228	5	0.96	0.95	0	258	219	8	12.8	11.8	-7
3 Royal Dutch/Shell Group	310	289	18	0.80	0.89	0	248	263	23	11.8	11.4	0
4 Phillips Petroleum	155	158	-6	1.11	0.85	10	171	134	5	10.8	11.5	2
5 Texaco	151	138	3	0.88	0.88	2	133	121	1	9.7	9.2	-4
6 Amoco	155	166	11	0.78	0.88	3	121	150	18	9.3	9.2	2
7 Elf Aquitaine	164	174	2	0.65	0.75	-5	107	130	-2	13.3	11.7	-10
8 Unocal	91	70	15	1.14	1.44	-9	103	100	5	11.4	10.4	5
9 Atlantic Richfield	102	111	-7	0.93	0.98	-3	95	110	-11	11.7	10.2	-4
10 Schlumberger	100	95	9	0.94	1.31	-15	94	123	-3	9.7	9.7	1
11 Mitsui Petrochemical	103	57	48	0.89	1.17	-2	91	62	41	7.9	8.2	-3
12 UOP	99	105	19	0.91	0.92	5	90	101	34	12.1	10.8	-2
13 Chevron	82	92	-10	0.86	0.96	1	70	87	-12	11.0	10.1	-1
14 Nippon Oil	54	47	10	0.93	0.84	5	50	40	15	8.8	8.2	0
15 British Petroleum	58	111	-20	0.60	0.71	-8	35	82	-26	11.2	10.4	-4
16 Occidental Petroleum	33	35	-4	0.91	0.74	15	30	25	7	8.2	10.8	9
17 Ashland Oil	16	49	-30	0.35	0.82	-27	6	48	-47	9.6	10.1	-9
9 HEALTH CARE												
GROUP COMPOSITE	2214	2225	1	1.00	1.01	2	2214	2250	4	8.7	8.9	1
1 Bristol-Myers Squibb	197	187	1	0.87	1.00	-6	171	187	-5	8.4	8.3	-2
2 Pfizer	136	118	7	1.20	0.97	10	163	116	20	7.3	8.7	6
3 Eli Lilly	119	109	2	1.31	1.12	10	156	124	13	7.2	7.9	2
4 Warner-Lambert	120	117	0	1.29	1.35	9	155	159	11	8.8	8.5	1
5 Johnson & Johnson	123	147	-7	1.23	1.23	-3	152	182	-8	7.2	8.4	2
6 Merck	188	174	6	0.80	0.99	-2	151	171	3	8.0	7.6	-1
7 Abbott Laboratories	84	59	21	1.49	1.33	4	125	80	25	7.6	8.1	-1
8 L'Oréal	98	85	16	1.03	0.89	5	101	75	19	11.4	12.1	-4
9 Baxter International	71	86	-9	1.33	1.45	-2	95	125	-12	10.0	10.0	0
10 American Home Products	102	116	9	0.80	0.79	5	81	93	16	7.1	8.2	6
11 Sulzer Brothers	76	82	-1	1.01	0.91	4	77	75	5	7.8	9.4	11
12 Roche Holding	114	109	6	0.65	0.80	9	76	87	-1	8.4	7.6	5
13 Becton, Dickinson	68	63	13	1.09	1.12	2	74	72	24	8.1	8.6	-2
14 Alza	37	40	9	1.96	2.15	6	72	88	18	12.2	11.0	-3
15 Bøehringer Mannheim	73	59	21	0.98	0.93	8	71	56	32	6.8	8.0	3
16 Cordis	28	29	-5	2.25	1.87	10	63	53	6	6.2	8.4	10
17 Kimberly-Clark	42	75	-16	1.44	1.57	-2	61	118	-18	10.3	11.3	3
18 Schering-Plough	60	16	16	0.98	1.00	3	59	52	23	7.6	7.5	2
19 Glaxo Holdings	57	33	60	0.92	0.90	44	52	34	223	8.4	7.6	-4
20 SmithKline Beecham	75	115	-40	0.66	0.69	-3	50	76	-13	8.6	9.0	-5
21 Takeda Chemical Industries	59	77	-1	0.73	0.77	10	43	60	11	8.1	8.2	-4
22 Sandoz	66	69	0	0.61	0.56	8	40	39	9	10.4	9.5	-3
23 Schering	66	67	10	0.47	0.55	10	31	38	21	11.0	10.0	6
24 Syntex	36	44	-4	0.74	0.87	-4	26	39	-7	9.1	8.7	-1
25 Fujisawa Pharmaceutical	40	43	4	0.57	0.55	-2	23	24	4	9.3	8.2	-13
26 Wellcome	29	35	21	0.54	1.30	72	21	52	142	9.1	7.7	-10
27 Upjohn	23	24	8	0.59	0.45	16	14	10	12	16.4	11.0	-15
Yamanouchi Pharmaceutical	14	17	6	0.63	0.71	-1	9	12	10	10.3	8.2	-12
10 INDUSTRIAL PRODUCTS												
GROUP COMPOSITE	1243	1230	0	1.09	1.17	-3	1359	1442	-3	8.1	9.1	4
1 Robert Bosch	313	267	3	1.09	1.14	-3	341	304	1	6.6	7.2	3
2 Aisin Seiki	174	153	5	1.29	1.33	1	225	204	7	5.0	7.2	17
3 TRW	112	111	5	1.34	1.28	2	150	132	5	10.0	10.2	0
4 Nippondenso	95	127	-15	1.39	1.70	6	132	221	21	6.9	6.8	2
5 Eaton	120	129	1	1.08	1.11	1	130	144	3	9.4	9.9	4

PATENT SCOREBOARD

COMPANY	NUMBER OF PATENTS			CURRENT IMPACT INDEX			TECHNOLOGICAL STRENGTH			TECHNOLOGY CYCLE TIME		
	1991	AVG. 1987-91	CHANGE 1987-91	1991	AVG. 1987-91	CHANGE 1987-91	1991	AVG. 1987-91	CHANGE 1987-91	1991	AVG. 1987-91	CHANGE 1987-91
6 Illinois Tool Works	78	85	-5	1.19	1.21	3	92	104	-7	14.9	14.2	-4
7 Bridgestone	105	111	10	0.88	0.91	1	92	102	15	11.1	10.3	-3
8 NGK Insulators	81	82	14	1.07	1.21	1	87	103	24	7.4	7.5	-1
9 Lucas Industries	78	88	-3	0.75	0.90	11	58	80	-15	7.6	9.3	5
10 Goodyear Tire & Rubber	87	84	2	0.56	0.67	-3	49	56	-1	10.7	12.9	4

11 MACHINERY

GROUP COMPOSITE	1051	993	2	0.87	0.88	0	919	878	2	9.3	10.3	4
1 Fuji Heavy Industries	145	103	18	1.83	1.71	1	266	174	19	4.1	4.0	0
2 Fanuc	129	114	11	1.29	1.61	-10	167	181	-1	5.5	5.3	0
3 Mannesmann	132	128	-2	0.66	0.68	-5	88	88	-6	10.4	11.0	1
4 Caterpillar	85	69	7	0.98	0.79	14	84	55	26	11.6	12.0	2
5 Deere	94	96	-2	0.80	0.72	7	75	69	3	12.1	13.0	3
6 Cooper Industries	87	91	6	0.80	0.83	0	69	76	6	13.7	13.8	2
7 Ingersoll-Rand	72	54	21	0.76	0.65	4	55	35	26	14.4	15.5	6
8 MAN	98	109	5	0.50	0.63	-1	49	69	2	10.2	11.7	2
9 Mitsubishi Heavy Industries	72	75	-5	0.54	0.69	-3	39	52	-8	11.3	12.5	-1
10 Komatsu	35	32	-2	1.01	0.89	4	35	29	3	6.1	7.7	8
11 Daikin Industries	46	41	7	0.68	0.83	-3	31	35	11	8.0	9.0	5
12 Kubota	36	39	6	0.75	0.91	6	27	36	18	13.8	11.7	-6
13 Kawasaki Heavy Industries	21	41	-23	0.68	0.76	-1	14	32	-22	14.8	14.2	-9

12 METALS & MATERIALS

GROUP COMPOSITE	641	699	-3	0.93	0.89	3	597	619	-1	9.8	10.5	3
1 Compagnie de Saint-Gobain	106	88	6	0.91	0.91	1	97	80	7	10.6	11.3	1
2 Asahi Glass	77	59	11	1.11	0.93	13	86	55	24	7.1	8.5	6
3 Corning	62	69	8	1.37	1.18	9	85	83	22	7.9	8.9	1
4 Aluminum Co. of America	78	78	-2	1.02	0.83	7	79	65	6	10.1	11.4	5
5 Sumitomo Metals Industries	51	49	2	1.11	1.01	9	57	49	9	8.8	8.9	1
6 Pilkington	40	44	3	1.27	1.11	4	51	49	7	9.8	9.7	-1
7 Nippon Steel	73	72	10	0.65	0.59	6	48	43	18	10.1	9.7	1
8 Kawasaki Steel	57	57	2	0.67	0.62	16	38	35	16	7.2	9.2	10
9 Pechiney	42	61	-11	0.69	0.87	1	29	54	-7	15.0	12.2	-9
10 Kobe Steel	36	68	-15	0.70	0.81	-12	25	56	-27	7.1	9.6	12
11 Owens-Illinois	20	57	-28	0.90	0.95	3	18	54	-25	13.2	12.8	-4

13 TELECOMMUNICATIONS

GROUP COMPOSITE	983	985	-1	1.42	1.47	-2	1395	1451	-3	5.3	6.2	5
1 American Telephone & Telegraph	487	425	4	1.84	1.77	2	895	754	6	5.3	6.2	5
2 GTE	249	270	-5	0.91	0.99	-4	226	270	-9	8.2	8.3	4
3 BCE	101	138	-13	1.13	1.31	-7	114	185	-19	5.7	6.1	3
4 Nippon Telegraph & Telephone	60	61	4	1.84	2.08	0	110	127	6	5.7	5.8	3
5 British Telecommunications	57	60	14	1.47	1.44	1	84	86	14	6.6	6.5	1
6 L. M. Ericsson	29	32	-7	0.83	0.97	-7	24	32	-12	5.5	6.9	6

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

ABB Asea Brown Boveri 5	1	Ernst & Young 3	4	3	Philips Petroleum 8	Mitsubishi Electric 5
ABB 9	10	Exxon 8	5	2	12	12
ABB 3	10	11	4	8	6	5
ABB 7	9	3	9	8	6	9
ABB 5	1	2	11	3	2	9
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American Home Products 9	3	5	11	10	1	10
13	11	9	3	12	7	3
Amoco 8	12	10	10	10	6	1
4	11	10	11	13	12	8
Asahi Chemical Ind 3	12	11	11	10	9	9
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9	11	11	11	10	9	9
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EDITED BY AMY DUNKIN

Health

WHEN THINNESS BECOMES ILLNESS

If someone you know truly believes one can never be too rich or too thin, it may be cause for alarm. Rich is O.K. But people who force their bodies into unnatural slimness can seriously harm their physical and mental health.

It's a mistake, too, to think that malnutrition affects only poor people. About 11 million women and 1 million men in the U.S. suffer from one of two conditions that physicians classify as eating disorders. Those with anorexia nervosa compulsively restrict the amount of food they eat. Those with bulimia nervosa may eat normally or "pig out" frequently—but to avoid gaining weight, they immediately regurgitate the undigested food or down huge quantities of laxatives for a purging effect.

Widespread study into the problem of undereating began just about a decade ago, and an increase in treatment methods and centers is one result. But many anorexics and bulimics, like drug or alcohol addicts, are so secretive that they manage to avoid treatment until their health reaches a critical stage. Celebrity and status is no shield from the problem. For example, a recent biography alleges that Britain's Princess Diana is a bulimic.

"Typically, bulimics—especially vomiters—are quite



skilled in hiding their condition," says Mary Bellofatto, clinical director of The Wilough at Naples (Fla.), which specializes in treatment. Many wear clothing that's too large, so no one realizes how thin they are.

Influenced by the slender, good-looking people they see in ads, films, and TV programs, teenagers seem particularly susceptible to bulimia or anorexia. A 1990 study of

seniors in 20 high schools in 18 states found that 11% fit one of the classifications. So parents should be alert to early signs of trouble, says Dr. Joan Barber, director of the George Washington University Medical Center eating disorders program.

MISERY CYCLE. About 95% of the 3,000 patients who have undergone treatment at the center are females from middle- and upper-income fam-

ilies. "Almost all have low self-esteem, are greatly concerned about what others think of them, and tend to be very nice—very compliant and passive—rather than say what they think," says Barber. Usually, their relationships with their peers are poor. "They say, 'I'm miserable, maybe because I'm too fat,'" says Barber. "They diet to lose 10 pounds. Dieting makes them feel more miserable, so they think they should lose more. It's a dangerous cycle."

Some anorexics become exercise fanatics and work out for hours. At the same time, they limit their food intake. That can weaken muscles, strain the heart, and make bones brittle. Bulimics may embark on refrigerator-raiding binges or consume a week's worth of groceries in a single day. Researchers say the influx of carbohydrates can affect brain chemistry to produce a pleasurable "high." Afterward, a bulimic

may gulp laxatives or diuretics to offset the binge.

Anorexia and bulimia are treated similarly. Since bouts of depression frequently cause people who suffer from these disorders to think that a slimmer figure will bring them happiness, physicians may prescribe Prozac or other antidepressant drugs. Routinely, patients undergo psychotherapy to uncover the underlying reason for their

pression. Many
says Bellofatto,
olve childhood sexu-
abuse. Adult children
alcoholics are also
one to eating disor-
ers. To relieve the
ess they feel, they
us all their attention
food.

STLY CONTROL. Some
dies, says the Na-
onal Anorexic Aid So-
ty (NAAS) in Colum-
s, Ohio, suggest that
ing disorders result
m genetic factors or
iations in brain
emistry. So treat-
ent begins with a medical
eckup and family history.
en comes individual, group,
d family therapy.
The cost to change beliefs
d modify eating habits can
a high. A full day at the
lough facility costs \$800.
r \$400, patients can partici-

THE PROBLEM PROFILE

A person with an eating disorder may:

- ▶ Make frequent excuses to skip meals or eat alone
- ▶ Be highly self-critical and strive for perfection
- ▶ Discuss food, weight, body shape continually
- ▶ Listen to others' problems, but seldom share his or her own
- ▶ Become aloof, experience rapid mood shifts

THE DANGER SIGNS

- ▶ Significant or extreme weight loss (15% or more)
- ▶ Ritualistic eating habits, such as cutting food into tiny pieces and chewing each 20 times or so
- ▶ Large food purchases disappear suddenly
- ▶ Unusual swelling around the jaw
- ▶ Numerous laxative or diuretic wrappers in the trash
- ▶ Regular visits to the bathroom after each meal

DATA: NATIONAL ANOREXIC AID SOCIETY

away from their peers, which relieves the stress they feel by not conforming" to an unrealistic standard.

Free pamphlets on bulimia and anorexia are available from both NAAS and the National Association of Anorexia Nervosa & Associated Disorders (ANAD) in Highland Park, Ill. They can also advise patients and families about local self-help and support groups such as Overeaters Anonymous, which can

pate in a plan that includes five or six hours of intense treatment. "That's enough to give them control over their eating, but they will still need support and therapy outside," says Bellofatto.

Although most medical insurance plans cover hospital-

ization costs, Dr. Barber says the trend is toward outpatient treatment. Hospitalized patients often revert to their old eating habits upon leaving the institution's control, she says. "A small segment of young anorexics do well in the hospital—simply because they're

help before a problem becomes serious or prevent a relapse after treatment. "Their members understand that an actual illness is involved," Bellofatto says. "To the average person, an anorexic is someone who should just eat more." *Don Dunn*

Computers

AG A MEGABYTE-SIZE BARGAIN AT A COMPUTER FLEA MARKET

Computer makers are discounting madly right now. But there's one way to get rock-bottom prices year: computer flea markets. These shows are hacker haven. Hundreds of dealers—many of them mom-and-pop operations—gather in a convention hall for a day to offer every component that conceivably could go in or on a computer, at discounts of up to 80% off retail. Occasionally, you can find good buys on used equipment, but most merchandise is new.

Try this on for size: A brand-new IBM clone with an Intel 486DX chip, 33 megabyte, a 170-megabyte hard drive, and a top-quality super A monitor for only \$1,695. All Computer, a major mail-order house that also discounts, sells a comparable system for \$2,508. Or how about an Epson LQ-870 letter-quality printer that spews 330 characters a second for \$275? Its printer sells for \$481 in a

leading electronics store. "If it's used in a computer, it's sold there," says Ken Gordon, whose KGP Computer Show (800 631-0062) stages 35 flea markets a year in towns from Massachusetts to Virginia. "You'll find everything you can imagine."

Everything, that is, except

name brands. Most of the systems sold are clones, custom-built by the vendors with the standardized parts you find inside any PC. You're more likely to see a Salcon—assembled by Sam Secondo of Enfield, Conn.—than an IBM or an Apple. That's one reason prices are so low.

LEMON AID. Although hackers haunt these shows, don't be intimidated if you're not one. Attend a few shows before you buy and ask lots of questions. You can also learn a lot from talking to dealers, comparing information and prices.

And you'll get a sense of which dealers come back time after time: You'll want to buy from them. Just as important, the vendor should be based in your area, in case you have to return your purchase for replacement or repair.

Get a receipt for anything you buy. You'll need it if you wind up with a lemon and the vendor gives you the run-around. Show promoters such as Gordon will follow up for you until you receive satisfaction—either in goods or cash. Besides KGP, other shows include Computer Central in Chicago (708 940-7547), PC Fest in Florida (407 746-4414), and California Computer (415 340-9113). For more names, check *Nuts & Volts* magazine (714 371-8497).

Fortunately, most vendors at established flea markets are reputable. Bob Ardis, a business analyst at Shearson Lehman Brothers, bought a powerful PC at a KGP show in New Jersey for \$1,650 (vs. \$2,500 retail). But a glitch in his system sent him back to the dealer. The vendor, whose store was about an hour from Ardis' home, replaced the faulty parts promptly—and, Ardis says, "he didn't charge me a cent." *Pam Black*



Travel

FROM PARIS TO PERU: TIPS ON TIPPING

One hopes the stories are apocryphal: the cab driver who tries to run you over, the vindictive bellhop rifling your bags. But travelers who don't practice proper tipping etiquette abroad can expect repercussions—if only the devastating sneer of a *maitre d'*. To save yourself embarrassment, it pays to know the rules.

By the standards of many other cultures, Americans tip too often and too much. Far from appearing munificent, says Hilka Klinkenberg, managing director of Etiquette International, a New York consulting firm, they come across as vulgar. "The biggest problem for Americans abroad is that we're perceived as crass capitalists," she says. "You

don't want to look as though you're storming in there trying to buy the place."

Nearly everywhere outside the U.S., hotel and restaurant bills include a service charge equal to 10% to 20% of the total. You may leave an additional 5% of the check in restaurants, but you don't have to, and more makes you look dumb. In Germany, it's customary just to round up the change to the nearest mark. If you're not sure whether service is included in the bill, ask the person who presents it to you.

FARE MAZE. Americans are accustomed to tipping taxi drivers, but in Denmark, the Netherlands, Finland, Switzerland, Japan, Thailand, and some Latin American countries, it's just not done. To avoid surprises, ask a native friend or hotel staffer about tipping before



you hail a cab. In some Arab nations, drivers theoretically don't take tips, but your fare may mysteriously double at the end of your ride. Always agree on fares before climbing into an unmetered taxi.

Chinese, Icelanders, and Ta-

hitanians consider all tips an insult. This cultural phenomenon, which has nothing to do with economic systems, can make even seasoned American travelers seem boorish. President Reagan in 1984 humiliated a Beijing shopkeeper—and made headlines—by telling him to keep the change from a small purchase.

Undertipping, of course, is just as offensive. Roger Axtell, author of *Do's and Taboos Around the World* (John Wiley & Sons, \$10.95), says that if you're unfamiliar with a foreign currency and likely to make mistakes, it's

better not to tip at all than to hand someone the equivalent of a nickel. In a large hotel ask the concierge about proper gratuities for various services. Annoying the wrong person could spoil your good time.

Joan Warner

To yield-starved investors, suffering as interest rates tumble toward 3%, foreign rates look downright luscious. In Germany, short-term securities yield nearly 10%; in Italy, 17%; in Mexico, 16%.

U.S. investors can take advantage of higher yields abroad—and minimize risk—with short-term global income funds. The first was launched in 1989, and now there are 28, with \$22 billion in assets.

Don't mistake these for money market funds. Net asset values fluctuate somewhat because of interest-rate swings, but mostly, they move on changes in foreign-exchange rates. On July 20, for instance, the dollar shot up 1.9% against a basket of currencies—and that nicked as much as 0.6% off some funds' NAVs.

These funds now sport yields of over 7%. That's a long way from the double-digit yields paid in many for-

SAFE PASSAGE FOR THE GLOBE-TROTTERING INVESTOR

eign markets. But then, these funds usually hedge much or all of their currency risk. That can cost several percentage points. Also, some funds keep money in low-yield dollar-based securities to dampen volatility. And there are expenses that run 1.34% on average.

So far, the hedged-global-fund concept seems to work,

says analyst Anthony Mayorkas of *Morningstar Mutual Funds*. Look at the Alliance Short-Term Multi-Market Trust, the first of these funds. Class A shares, which started at \$9.70, have moved between \$9.55 and \$10.01 and now trade at \$9.69. (Many broker-sold funds have "A" and "B" shares. Class A holders pay

a 3% upfront load; B holders pay a 0.5% distribution fee annually, which comes out of interest income.) "Our goal is to beat a six-month certificate of deposit by two percentage points," says portfolio manager Bob Sinche. The fund is now ahead of CDs by nearly four points.

TIGHT SHIP. The no-load Scudder Short-Term Global Income Fund, which has nearly \$1 billion, earned a 13.33% total return in the 12 months ending June 30. Its current yield is a bountiful 9.03%, helped by relatively low expenses.

While these funds seem right for investors today, what will happen when U.S. rates move higher than most others? Margaret Craddock, manager of the Scudder fund, doesn't worry about running out of investments. With emerging markets such as Greece, offering 20% yields, "there will always be new opportunities coming along."

Jeff Laderman

Smart Money

LOOKING ABROAD FOR HIGH YIELDS

Fund	Current yield	Total return*	Phone 800-
ALLIANCE SHORT-TERM MULTI-MARKET B	7.48%	7.16%	227-4618
FIDELITY SHORT-TERM WORLD INCOME	7.92	4.36**	544-8888
MERRILL LYNCH SHORT-TERM GLOBAL INCOME B	7.61	7.50	637-3863
PRUDENTIAL SHORT-TERM GLOBAL INCOME B	9.30	8.01	225-1852
SCUDDER SHORT-TERM GLOBAL INCOME	9.03	13.33	225-2470

*Appreciation plus reinvestment of dividends and capital gains for 12 months ending June 30
**Six months ending June 30
DATA: MORNINGSTAR INC., BW

WESTERN REGIONAL COMPETITIVENESS FOR 1992 AND BEYOND

THE BUSINESS WEEK WESTERN ROUNDTABLE
OF CHIEF EXECUTIVE OFFICERS



When the young were exhorted to "go west" in the 1850s, no one could have foreseen the great migration that followed, nor imagined the abundant opportunity and growth that lay ahead in that frontier. Today, with 53 million people in 12 states—from Hawaii eastward to the Mountain West—the Western region is an economic powerhouse. The California

economy alone is just slightly smaller than the United Kingdom's.

Business leaders of the region, all representing major corporations, gathered recently in Palm Springs to participate in the first annual invitational *Business Week Western Roundtable* of Chief Executive Officers. After the exclusive two-day meeting, the CEOs adjourned to enjoy the famed Nabisco Dinah Shore Golf Classic.

by Barbara H. Peters and James Peters

In line with the concerns of chief executives worldwide, these CEOs focused on the many challenges of globalization, market integration, and social and political change. But they explored these ubiquitous leadership issues from a distinct regional perspective.

A GLOBAL CONTENDER

"Historically, the Western region's economy has profited from the presence of an educated and diverse work force, state-of-the-art technology, and a wealth of capital," says **Donald W. Walls**, senior vice president and managing director of DRI/McGraw-Hill. With regional advantage also getting a boost from governmental policy, world-class universities, access to Asian, Mexican, and Canadian markets, plus a desirable quality-of-life, "clusters of high value-added jobs—in key high-tech industries and the financial and business services—have flourished in the region, contributing to its robust competitiveness."

Safi Qureshey, co-chairman, president and CEO of AST Research, singles out "a dynamic entrepreneurial culture" as the core of the region's muscle. "In the last 15 years, visionary entrepreneurs here in the West built both the information technology and biotechnology industries—industries that will be the drivers of the 21st century."

"For such industries to remain inventive and buoyant," Qureshey argues, "companies must partner with universities. It was cooperation between Stanford University and Hewlett-Packard that eventually spawned Silicon Valley." As AST aggressively pursues product innovation in the computer industry, it is casting its relationship with the University of California, Irvine, on the Stanford-HP model. "This creates value for the university, for our company, and for the region."

REGIONAL LEADERSHIP CHALLENGES

Like the rest of the nation, the West faces some daunting tasks in the years ahead. And those challenges are already front-burner issues for many of the region's CEOs.

Competition between Western states, for example, is a problem that preoccupies **Wilford D. Godbold**, president and CEO of the Zero Corporation. Seeking lower costs and a regulatory environment more welcoming to business, his manufacturing company recently moved two divisions from California to Utah. Two months later, the California Chamber of Commerce asked Godbold to head its Save California Jobs task force.

Between June 1990 and March 1991, California lost 675,000 jobs. Godbold reports that surveys of business leaders

reveal a knot of problems that need immediate, systematic attention to reverse the alarming job hemorrhage. "Job creation is hampered by an out-of-control workers' compensation system, skyrocketing health care costs, and overly lenient liability laws. Compounding these obstacles are high state taxes, a convoluted permits process, and a maze of government regulations."

Save California Jobs is sounding a grassroots wake-up call to state leaders who must now revisit the rules and regulations governing business. "The trick," Godbold cautions, "is to make changes that are good for the state's well-being and, at the same time, stimulate job creation."

"In the region's effort to sustain competitiveness, the pursuit of corporate advantage must not be permitted to degrade the environment," says **Kris McDivitt**, CEO of Patagonia, Inc. "The days of measuring corporate success by high growth and high profit are over," she asserts. "Every drive forward has an equal and opposite drive backward on our natural resources."

Clean air and water, species survival, and open space now command a value that competes with the corporate push for higher profits. McDivitt reports that eight years ago her outdoor clothing company began demonstrating its responsibility to "keep our own nest clean" by curbing its growth from 50-70% a year to 5-10%. "That triggered fundamental changes in how Patagonia does business—in design, manufacturing, and marketing."

A MATTER OF EDUCATION

Another big hurdle to continued regional competitiveness is the education crisis. Reporting that 30% of students in the West fail to graduate from high school and that 20% are illiterate, DRI/McGraw-Hill's **Donald Walls** notes that California—once the nation's leader in graduating high school students—has skidded into 42nd place.

Yet the education problem is even thornier because it is also national. Test scores of US students are near the bottom of the major industrialized nations. "Knowledge, in the sense of new ideas and sophisticated skills, is essential to our economic health," says Governor **Roy Romer** of Colorado. "We know our young people can learn more and can learn faster. Students throughout the industrialized world are demonstrating that."

The bottom line: we need to overhaul our school systems. Governor Romer urges CEOs to "join teachers and parents to develop a consensus about what children need to



"The free trade agreement is essential to the nation's economic health and an effective instrument for showing U.S. support of President Salinas' economic and social liberalization programs."

Thomas B. Kelly, managing director and member of the executive committee of Arthur Andersen





Make your employees and your shareholders as comfortable as possible with the process of transformation: it is the key to major change."

James R. Boris, chairman, president and CEO of Kemper Securities Group



learn and at what age they need to learn it." Then, he says, "We need to support creative—and sufficiently financed—learning programs that target world-class goals."

OPENING BORDERS TO FREE TRADE

Motivated in part by the imminent economic unification of Europe, the discussion of an Asian trading bloc, and the trend toward privatization in Eastern Europe and the former Soviet Union, leaders of the US, Mexico, and Canada are now engaged in trilateral negotiations for a North American Free Trade Agreement (NAFTA).

Opening the border to free trade between the US and Mexico will profoundly affect many industries in the West. But **Thomas B. Kelly**, a managing director and member of the executive committee of Arthur Andersen, observes that most executives seem to favor an agreement, but that there is a lack of consensus about NAFTA's ability to deliver more opportunities than liabilities. Kelly agrees with those who view the free trade agreement as essential to the nation's economic health, and an important way to show US support of President Salinas' economic and social liberalization programs.

Still, he asks: "Will NAFTA adversely affect US employment? Reduce illegal immigration? Provide a major new market in Mexico?" These complicated questions, Kelly believes, demand an open and candid national debate.

Championing NAFTA at the *Business Week* Western Roundtable were **Roger Baccigaluppi**, former president and CEO of Blue Diamond Growers, and **Robert Van Dine**, vice chairman of St. Ives Laboratories. Baccigaluppi notes that NAFTA would create the world's largest regional trade area, a market of 360 million people. Mexico, whose economy ranks 10th worldwide, is already the third largest US trading partner.

"Since 1986, US exports to Mexico have nearly tripled—from \$12 to \$33 billion—and this has created 300,000 new US jobs," Baccigaluppi says. "A free trade agreement would lock in those gains and create new market openings for US business."

One company already reaping benefits from Mexican trade reform is St. Ives Laboratories, a medium-sized cosmetics firm. "We began exporting to Mexico in 1990," says Van Dine. "First-year sales totaled almost \$1.4 million. Sales for 1992 are projected to top \$2.8 million, despite the fact that our products cost about 25-30% more than those manufactured locally."

Howard Samuel, president of the Indus-

trial Union Department, AFL-CIO, voiced a different perspective. Insisting that the US shares little more than a 2,000-mile border with Mexico, Samuel categorizes Mexico "as a country where 90% of the people live in poverty and where average worker's wages are less than one-tenth of their US counterparts'." Samuel believes the priority should be to help Mexico gain an equal industrial and economic footing with the US. "Then, as equals, we can negotiate an agreement that preserves US trade law remedies and insures that Mexico doesn't become an export platform for non-NAFTA countries."

MANAGING CORPORATE CHANGE

Chief executives in the Western region—like their peers around the globe—see no end to the accelerating pace of change. Indeed, corporate leaders today regard change as the overarching certainty of business life.

James R. Boris, chairman, president and CEO of Kemper Securities Group, who recently led his firm through a 14-month restructuring and consolidation, says, "The key to major change is to make your employees and your shareholders as comfortable as possible with the *process* of transformation."

"For Kemper," Boris continues, "this meant senior management had to set a clear direction for the organizational change and adhere strictly to the company's objectives." The mission was to align five regional brokerage firms into one strong nationwide operation. Building from its decentralized heritage, the newly consolidated Kemper Securities now uses an inverted pyramid management model.

"Management's job is to *support* the efforts of our investment bankers and brokers on the frontlines. These professionals, in turn, serve the changing needs of *their* clients," says Boris.

PARTNERSHIPS FOR ADVANTAGE

Public-private partnerships have a long history in the Western US. Alliances helped settle the region, build the railroads, irrigate the deserts. **Philip Burgess**, president of the Center for the New West, says, "Today's challenges are driving the growth of new partnerships in the West—public-private, intrastate and interstate, and cross-border."

Increased international competition is the catalyst for some bold new partnerships, for example, between the Port of Los Angeles and the private sector. The Port's executive director, **Ezunial Burts**, says, "For us, this generation of partnerships is different because they are equity partnerships. There are incen-

tives for long-term commitment—minimum annual guarantees and revenue-sharing agreements—on both sides of the bargaining table.”

One such venture is a state-of-the-art container terminal that is the first exclusive-use US facility for a major Japanese shipping firm. “This terminal means jobs for almost 3,000 people and \$250 million annually in industry sales,” says Burts. “It will ultimately benefit our entire regional economy and serve as a public-private partnership model.”

The former Mayor of Phoenix, **Terry Goddard**, sees the collapse of boundaries—city, county and state—as an excellent opportunity for collaboration. “In a time of declining federal and state revenues, cooperation among communities is strategically imperative.”

Goddard also endorses public-private projects. “In Phoenix, we teamed up with the private sector to collect and recycle trash, run landfills, deploy security, and provide computer services,” he says. “Moreover, the future offers vast opportunities for private participation in water service, waste management, roads, and all forms of transportation.”

R. Michael Mondavi, managing director and CEO of Robert Mondavi Winery, describes Opus One, his firm’s cross-border partnership with Chateau Mouton Rothschild in France, as an effort “to produce the world’s greatest wine.” Mondavi emphasizes that the two vintners shared similar goals. “We wanted to learn more about the *art* of winemaking, and they hoped to learn more about the *science*.” By blending the strengths of both companies—and both countries—they cultivated a wine that is now honored worldwide.”

NEW DIRECTIONS FOR HEALTH CARE

Among the West’s business leaders, no disagreement exists about the forecast that the nation’s health care crisis isn’t going away soon. But consensus is hard to find concerning the best course for reform—both in the country and within corporations.

James A. Curtis, chairman and CEO of Milliman & Robertson, reporting on a survey conducted by his firm among participants at the *Business Week* Western Roundtable, confirms that virtually all CEOs believe health care plans cost too much and are now undertaking changes to help cut those costs. New directions include: more employee cost-sharing, changes in insurers or administrators, flexible benefits plans, and reductions in benefits. “Significantly, 64% of the CEOs are willing to provide incentives—including financial ones—to encourage employees to improve their health,” Curtis notes.

There was great divergence among the

CEOs on the issue of a single health care system for the nation. But Curtis stresses that CEOs should take a proactive role in the national health care debate. “Otherwise, the business community will endure a solution it failed to influence.”

Peter Boland, president of Boland Health Care Associates, adds, “CEOs must ask the tough questions about cost containment, about delivery systems, and about the quality of suppliers. You can’t save money without quality. Put simply, we need to forge a health care partnership with our suppliers—not only the insurers but also the hospital and physician groups—because they are the real cost managers.”

At Southern California Edison (SCE), health care costs had been rising by over 20% a year from 1981-88. “So, in 1989, we switched to a managed care plan,” says president **Michael Peevey**. “And we cut our trend rate in half, from a projected 1992 cost of \$162 million to a more manageable \$114 million. In total, we saved \$66 million in 1989-91.”

Peevey explains his company’s strategy: “We created our own network of providers—physicians and hospitals willing to accept the fees we would pay. Through co-payment differentials, we encouraged our employees to use these providers.”

Creative benefit designs like SCE’s are just one of the ways companies can control costs says **Leonard D. Schaeffer**, chairman and CEO of Blue Cross of California. “Companies should also invest in wellness and prevention programs. And they should choose managed care partners with superior records of customer service and quality care.”

AN ENTERPRISING LEGACY

Despite the tough choices facing the West—and the nation—CEOs at the *Business Week* Western Roundtable expressed confidence about the future. Indeed, **William Agee**, chairman and CEO of Morrison Knudsen Corporation, says, “I am outright bullish about the 1990s.”

Former President **Gerald R. Ford** echoed the optimism. “In my lifetime, Americans won two world wars, overcame the Great Depression, and helped dismantle world communism. These wins weren’t achieved by selling short America’s enterprising spirit.

Surely that spirit will prevail as leaders of the Western region craft solutions to the challenges of today—and tomorrow.” ■

Barbara H. Peters and James Peters are New York-based writers who specialize in corporate communications.



“Unless CEOs take a proactive role in the national health care dialogue, the business community will endure a solution it failed to influence.”

James A. Curtis, chairman and CEO of Milliman & Robertson, a national actuarial and consulting firm



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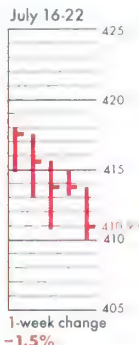
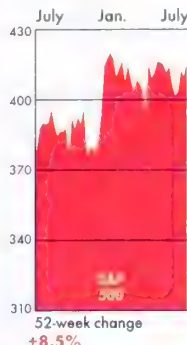
BusinessWeek

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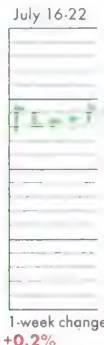
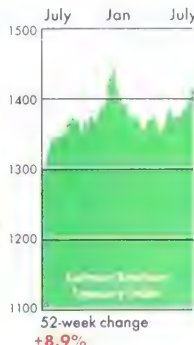
COMMENTARY

Stock markets around the world were hit hard by the German move to raise rates. The Dow dropped 100 points, or 2% for the week. But the sell-off overseas was far sharper. London lost 4%, and Tokyo fell 3% to a six-year low. Weak economic news boosted the money markets, however, especially on the short end. The yield on three-month Treasuries fell again and is now a whisker of the dividend paid on the S&P 500. This puts a bid under stocks. Gold prices rose in reaction to the decline in the dollar.

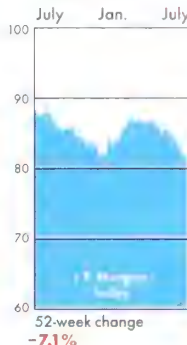
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

U.S. STOCKS

	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3277.6	-2.0	10.5
COMPANIES (Russell 1000)	217.4	-1.4	9.9
ALL COMPANIES (Russell 2000)	188.9	-1.2	11.0
COMPANIES (Russell 3000)	231.0	-1.4	10.0

FOREIGN STOCKS

	Latest	% change (local currency) Week	% change (local currency) 52-week
LONDON (FINANCIAL TIMES 100)	2387.9	-4.0	-7.5
TOYO (NIKKEI INDEX)	15,542.0	-9.2	-33.3
TORONTO (TSE COMPOSITE)	3412.10	-1.7	-3.0

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.23%	3.25%	5.7%
30-YEAR TREASURY BOND YIELD	7.63%	7.63%	8.4%
S&P 500 DIVIDEND YIELD	3.04%	3.01%	3.3%
S&P 500 PRICE/EARNINGS RATIO	23.4	23.6	18.7

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	410.7	410.8	Positive
Stocks above 26-week moving average	44.0%	44.9%	Neutral
Speculative sentiment: Put/call ratio	0.48	0.38	Positive
Insider sentiment: Vickers sell/buy ratio	1.87	2.01	Positive

INDUSTRY GROUPS

FOUR-WEEK LEADERS

	% change 4-week	% change 52-week
SHOES	15.0	22.3
HEALTH CARE SERVICES	13.3	36.5
HOMEBUILDING	11.6	28.4
DRUG CHAINS	10.3	3.5
HOSPITAL MANAGEMENT	10.2	-36.1

FOUR-WEEK LAGGARDS

	% change 4-week	% change 52-week
AUTOMOBILES	-6.6	9.4
TRUCKING	-6.1	-0.6
HEAVY-DUTY TRUCKS	-4.4	19.8
ALUMINUM	-4.4	-3.6
POLLUTION CONTROL	-3.0	-6.0

Strongest stock in group

	% change 4-week	% change 52-week	Price
NIKE	24.0	63.2	69 3/4
BEVERLY ENTERPRISES	23.7	-17.0	9 1/8
PHM	17.4	65.5	22 3/4
WALGREEN	13.0	6.3	35 7/8
HUMANA	12.3	-30.5	22 3/4

Weakest stock in group

	% change 4-week	% change 52-week	Price
CHRYSLER	-8.9	36.6	19 1/8
ROADWAY SERVICES	-9.4	12.2	57 1/2
PACCAR	-6.5	13.6	54 1/4
ALCAN ALUMINIUM	-5.9	-4.2	20
WASTE MANAGEMENT	-5.4	-4.5	34 7/8

BRIDGE INFORMATION SYSTEMS INC

MUTUAL FUNDS

LEADERS

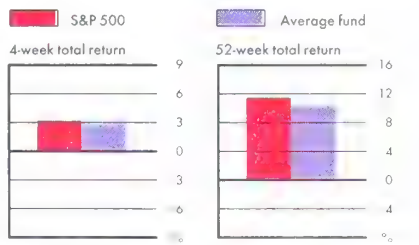
	4-week total return	%
FIDELITY SELECT MEDICAL DELIVERY	11.6	
STEADMAN OCEANOGRAPHIC TECHNOLOGY	11.6	
BENHAM GOLD EQUITIES INDEX	11.2	

	52-week total return	%
FIDELITY SELECT SAVINGS & LOAN	56.4	
FIDELITY SELECT REGIONAL BANKS	47.7	
FREEDOM REGIONAL BANK B	46.9	

LAGGARDS

	4-week total return	%
SCHILD AGGRESSIVE GROWTH	-8.6	
SCHILD VALUE	-7.8	
MERRILL LYNCH EUROFUND B	-6.3	

	52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	-51.2	
UNITED SERVICES GOLD SHARES	-40.1	
G. T. JAPAN GROWTH	-28.5	



MORNINGSTAR INC

RELATIVE PORTFOLIOS

Dollar amounts represent the present value of \$10,000 invested one year ago for each portfolio. Percentages indicate 3-day total returns.


Treasury bonds
\$11,951
+0.40%


U. S. stocks
\$11,050
-0.94%


Money market fund
\$10,380
+0.06%


Foreign stocks
\$9,781
-4.94%


Gold
\$9,715
+2.04%

DATA RESOURCES INC

data on this page are as of market close Wednesday, July 22, 1992, unless otherwise indicated. Industry groups include S&P 500 companies only; performance and share prices are as of market close.

July 21. Mutual fund returns are as of July 17. Relative portfolios are valued as of July 21. A more detailed explanation of this page is available on request.

AT LEAST PEROT'S PLAN WAS COURAGEOUS

Ross Perot may have abruptly quit the political stage in this bizarre election year, but his iconoclastic legacy lives on. His economic plan to balance the budget would have dared the American people to see the truth about the sacrifices they have to make to reduce, once and for all, the nation's humongous federal budget deficit, which has been growing nonstop at an alarming rate since 1982. But can they face the necessity of capping spending on entitlements and raising taxes on gasoline?

So far, the country has pretended that the evil twins, deficit and debt, didn't matter very much. The inability to jump-start this sputtering recovery and the continued rise of unemployment may finally change that. The deficit has such a tight stranglehold on fiscal policy that any whisper of increased government spending to spur the economy—even on needed infrastructure investments such as roads and bridges—will send long-term interest rates higher, choking off the recovery. The very size of the deficit is already keeping real long rates at historically high levels. If the deficit were \$150 billion and trending down, instead of \$350 billion, 30-year mortgage rates would be closer to 5½% than 8%, and the bank prime would probably be at 4% rather than 6%. You want growth? That will give you growth.

Both President Bush and would-be President Clinton have avoided the deficit issue. Clinton's program properly emphasizes investing in human and physical capital to build a more globally competitive economy. The Republicans will soon be heard from. Yet so far neither has had the courage to embrace the brutal truth—America can't really grow without solving its deficit-and-debt legacy of the 1980s. And that will require sacrifice from all of us.

MEXICO: FREE TRADE IS WORTH THE PAIN

Marathon negotiations to transform the North American continent into the world's largest free-trade zone are nearly complete. Next up: a signing ceremony. But even then, the battle will be just half over. The U.S. Congress must still vote on the pact, and the lobbying for and against is intensifying.

Although final details are still being worked out, this much is clear: The agreement will bring Mexico into the current free-trade agreement between the U.S. and Canada and will benefit the overall U.S. economy by creating jobs in the export sector. Right now, Mexico's tariffs on U.S. goods are 10% on average, while nearly half of all goods currently entering the U.S. from Mexico are duty free. The remaining half is taxed at an average of only 4%. Some Mexican industries, such as financial services, are highly protected. So U.S. exporters and investors actually have the most to gain from lifting trade barriers.

Certainly, the loss of some relatively low-wage, low-skill American jobs to Mexico will accelerate. But over the long run, these jobs would be lost anyway—probably to Southeast Asia's developing nations. Because the Mexicans spend 60% of their export earnings buying goods from the U.S., a figure far higher than in other nations, the U.S. clearly stands to benefit. Still, some provision must be made for displaced U.S. workers, and Mexican regulations on worker health and safety and child labor will have to be strengthened. Similarly, both nations will have to commit to a massive environmental cleanup of the border area. The current effort is the world's first attempt to wed the economies of two industrialized nations—the U.S. and Canada—to that of a developing country. If successful, the North American Free Trade Agreement will boost the economies of all three countries and certainly be worth the pain.

GIVING NEW MEANING TO PUBLIC SERVICE

Fed up. That's how customers often feel about the service they receive in America. Tired of bored, inattentive sales clerks, angry at ripoffs by car repairmen, and exasperated by voice mail that does everything except answer their questions, consumers are mad as hell. They're taking their dollars to more and more corporations that realize that meeting consumers' needs and solving their problems are what business, in the end, is all about (page 46).

So we have the wonderful example of Home Depot which, as a way of selling power tools and sinks, is hiring carpenters and plumbers to offer on-the-spot lessons to customers on how to fix their dens and kitchens. And we see Dell Computer holding a weekly Customer Advocate Meeting and declaring that each customer "is a partner" who "must be pleased, not just satisfied." By refocusing business activities, the private sector is beginning to respond to consumers' deep-seated feelings of neglect and abuse.

If this were only true of the public sector. People are fed up with the poor quality of government services as they are with the rotten treatment they receive while shopping. The failure to deliver services has generated a deep suspicion of government. It's behind the drive for choice and vouchers in education, as well as the move to privatize garbage collection and other city services. What lessons can the private sector teach the public sector? First, providing great service requires that the entire organization focus directly on the consumer. So school systems should put their dollars into classrooms and children, not huge bureaucracies. Second, compensation is a powerful tool in rewarding employees for providing good service. So motor vehicle bureaus should make efficient service a part of pay scale, otherwise dominated by seniority. Third, training in problem solving is crucial. So a Post Office "I dunno," followed by a blank stare, should be replaced by "Wait a minute, I'll find someone who can help you." The private sector is starting to do a much better job of catering to consumers who are angry with lousy service. Improving the delivery of government services is the next challenge.

WEEK
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BusinessWeek

AUGUST 10, 1992

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The Global Economy: WHO GETS HURT

The good news:
Lower trade barriers
promote economic
growth. The bad
news: Global
competition is
ragging down
pay for lower-
skilled workers—
widening the gulf
between rich
and poor.



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The idea of open systems—that computers should easily share things and basically behave like friends—is what everybody is aiming for.

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...d, but not always from the same point of view.

An ideal open system begins with a plan for your business needs, and IBM can help you with it, probably better than anyone. The stake in open systems goes far beyond hardware, operating systems and all the standards we support. It includes the *services* you'll need to make everything work.

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example, we built an open system that's improving customer service. Based on the IBM RISC System/6000,[™] it works in close partnership with their DEC,[®] Tandem[®] and IBM mainframes, on a network that includes both TCP/IP and SNA protocols. And along with IBM banking software (customized by one of our Business Partners), it runs a wide variety of off-the-shelf UNIX applications. And we not only helped integrate the whole system, we provide ongoing service.

We're open to helping you, too. To learn more, call us at 1 800 IBM 6676, ext. 730.





LEVI'S COULDN'T MATCH OVERSEAS FACTORIES ON COST, SO IT USED A TEAM APPROACH TO BOOST QUALITY AND PRODUCTIVITY

Cover Story

48 THE GLOBAL ECONOMY: WHO GETS HURT

Do lower trade barriers mean growth for the U. S.? In a word, yes. But there's a sobering trade-off: The global economy has brought an unprecedented surge in income inequality between the most- and least-educated halves of the work force. And as trade picks up, that gap is likely to widen. What strategy, then, short of protectionism, can keep America from becoming a society of educated winners and less educated losers?

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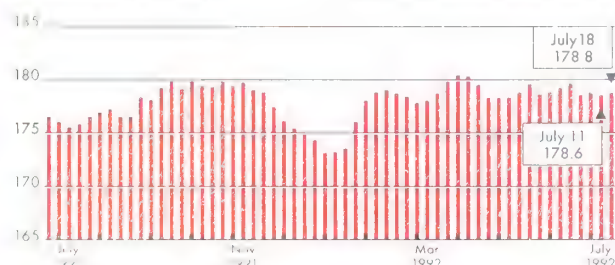
BusinessWeek Index

PRODUCTION

Change from last week: 0.1%

Change from last year: 1.6%

1967=100 (four week moving average)



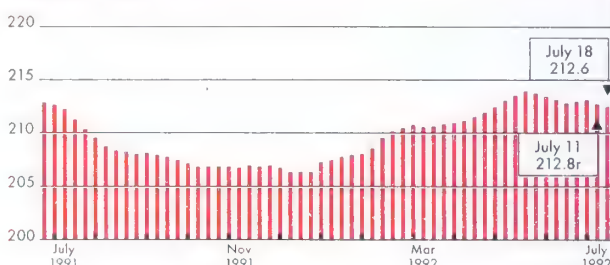
The production index increased slightly during the week ended July 18. On a seasonally adjusted basis, auto and coal production surged, and electric power, paper, and paperboard output and rail-freight traffic advanced as well. Truck and steel output declined, while crude-oil refining and lumber output were unchanged. Before calculation of the four-week moving average, the index jumped to 183.2, from 180.5 in the previous week.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: -0.1%

Change from last year: 0.6%



The leading index was virtually unchanged during the week ended July 18. The index is forecasting little growth in the economy in the second half. Sharply higher stock prices and slower growth rates for materials prices and real estate loans offset a large decline in the number of business failures and some improvement in the growth of M2. Bond yields were little changed. Before calculation of the four-week moving average, the index dropped to 211.9, from 212.2.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (7/25) thous. of net tons	1,753	1,723#	5.7
AUTOS (7/25) units	65,946	108,100r#	-17.0
TRUCKS (7/25) units	43,299	68,657r#	-25.6
ELECTRIC POWER (7/25) millions of kilowatt-hours	64,032	67,744#	-5.0
CRUDE-OIL REFINING (7/25) thous. of bbl./day	13,988	14,097#	1.1
COAL (7/18) thous. of net tons	17,769#	16,814	-8.3
PAPERBOARD (7/18) thous. of tons	804.3#	783.2r	2.7
PAPER (7/18) thous. of tons	748.0#	708.0r	-0.3
LUMBER (7/18) millions of ft.	479.7#	446.6	-13.9
RAIL FREIGHT (7/18) billions of ton-miles	20.4#	19.6	5.2

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFP, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (7/29)	128	127	138
GERMAN MARK (7/29)	1.48	1.49	1.76
BRITISH POUND (7/29)	1.92	1.90	1.67
FRENCH FRANC (7/29)	5.00	5.03	5.99
CANADIAN DOLLAR (7/29)	1.19	1.19	1.15
SWISS FRANC (7/29)	1.32	1.32	1.54
MEXICAN PESO (7/29)	3.098	3.099	3.031

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (7/29) \$/troy oz.	358.200	358.750	-1.3
STEEL SCRAP (7/28) #1 heavy, \$/ton	88.50	88.50	-0.6
FOODSTUFFS (7/27) index, 1967=100	198.6	198.5	-3.5
COPPER (7/25) c/lb.	120.1	119.5	15.9
ALUMINUM (7/25) c/lb.	61.0	59.8	3.6
WHEAT (7/25) #2 hard, \$/bu.	3.51	3.56	17.4
COTTON (7/25) strict low middling 1-1/16 in., c/lb.	61.08	61.34	-12.7

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (7/24) S&P 500	414.42	416.56	8.9
CORPORATE BOND YIELD, Aaa (7/24)	8.06%	8.09%	-10.1
INDUSTRIAL MATERIALS PRICES (7/24)	98.5	98.1	1.9
BUSINESS FAILURES (7/17)	391	432	44.3
REAL ESTATE LOANS (7/15) billions	\$398.3	\$399.8r	-2.9
MONEY SUPPLY, M2 (7/13) billions	\$3,403.7	\$3,398.8r	0.3
INITIAL CLAIMS, UNEMPLOYMENT (7/11) thous.	422	403r	-0.7

Sources: Standard & Poor's, Moodys, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans.

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
ORDERS FOR DURABLE GOODS: MFG. (June) billions	\$122.5	\$119.7r	8.0
BUDGET SURPLUS OR DEFICIT (-) (June) millions	\$3,783	-\$46,786r	NM
BUSINESS INVENTORIES (May) billions	\$829.1	\$828.6	0.6
BUSINESS SALES (May) billions	\$546.0	\$547.1	2.0

Sources: Commerce Dept., Treasury Dept

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (7/13)	\$956.5	\$960.1r	11.5
BANKS' BUSINESS LOANS (7/15)	279.4	279.0	-9.4
FREE RESERVES (7/22)	846	585r	78.1
NONFINANCIAL COMMERCIAL PAPER (7/15)	143.0	143.5	-3.1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (7/28)	3.27%	3.15%	5.79%
PRIME (7/29)	6.00	6.00	8.50
COMMERCIAL PAPER 3-MONTH (7/28)	3.38	3.41	5.95
CERTIFICATES OF DEPOSIT 3-MONTH (7/29)	3.30	3.33	5.94
EURODOLLAR 3-MONTH (7/25)	3.31	3.35	5.98

Sources: Federal Reserve Board, First Boston

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BW 8-10-92

Readers Report

CORRECTIONS & CLARIFICATIONS

In "The Democrats can win—but not without these people" (Top of the News, July 27) we incorrectly identified Alice Schuman. She is finance director of the Visiting Nurse Association of Huron Valley, in Ann Arbor, Mich.

lieve that convertible-security holders who lose out on a coupon payment would agree.

HOME-EQUITY LOANS: YOUR BRUSH IS A LITTLE BROAD

You paint the financial-services and banking industries with the same broad brush ("It's like being on the edge of a precipice," Finance, July 27). For "nonbank" lenders, such as Beneficial, which are disciplined in their loan-to-value standards and use the ability of the borrower to repay as the primary loan criterion, the current decline in real estate values has not significantly affected the safety of home-equity loans.

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You also note that delinquency rates are being questioned. You are partly correct. The national statistics on home-equity lending are abysmal. But Beneficial, with a portfolio of over \$5 billion in real estate-secured loans across North America, maintains accurate statistics. Our total delinquency rate for such loans as of May 31 was 2.71%, less than the previous year. Our total real estate losses this year are averaging 0.46% on an annualized basis, also less than last year.

Finn M. W. Caspersen, Chairman
Beneficial Corporation
Wilmington, Del.

The industry is playing Russian roulette, as are homeowners. If we don't recognize this soon, and if high interest rates are erroneously used to fine-tune inflation, home-equity borrowers will be the first ones to suffer.

Stanley Greenstein
Executive Vice-President
Mortgage Clearing House
New Hyde Park, N.Y.

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax: (212) 512-4600. Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space.

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BusinessWeek
PROFIT BY IT

CAPITOL GAMES:

CLARENCE THOMAS, ANITA HILL, AND THE STORY OF A SUPREME COURT NOMINATION

Timothy M. Phelps & Helen Winternitz

Hyperion • 458 pp • \$24.95

THE LOW ROAD TO THE HIGH COURT

The friends and foes of Supreme Court Justice Clarence Thomas both turned out to be right: Conservatives predicted he would cement their majority, while liberals fretted that he would vote against abortion and limit the rights of minorities. The likelihood that the youthful Thomas would strengthen the court's dominant conservative wing goes a long way toward explaining why his confirmation hearings in the fall of 1991 turned so ugly.

The allegations that, while head of the Equal Employment Opportunity Commission, Thomas sexually harassed fellow employee Anita F. Hill made for a spectacular finale. But the weeks-long battle over George Bush's second nomination to the Supreme Court served as a proxy for the continuing struggle for the political soul of America. With Republicans enjoying success in Presidential races and Democrats holding most other elected posts, the court has become the battleground between left and right. Ideological litmus tests are now more important in securing a seat than judicial temperament or ability.

It is this highly charged environment that Washington journalists Timothy M. Phelps of *Newsday* and freelancer Helen Winternitz explore in their book *Capitol Games*, a behind-the-scenes look at the Thomas confirmation and the soap opera it turned into after Hill's allegations of sexual harassment were made public.

We get to meet again all the characters of the saga. There are the members of the Senate Judiciary Committee, including Wyoming windbag Alan Simpson, whose folksy ways don't quite disguise a mean streak, and Ted Kennedy, whose own reputation for unsavory behavior with women renders him speechless through most of the hearings. There is Thomas' political godfather, Senator John Danforth, "Saint Jack" to his colleagues, who is only too happy to be a White House pit bull if it gets him the

civil-rights bill he ardently supports.

Then there are the handlers, the hangers-on, and the relatives and friends of both Hill and Thomas who have to endure the public spectacle. We have the busloads of supporters from Pin Point, Ga., the hamlet where Thomas was born. On the other side, we have the women members of the House who storm up to the Capitol to vent outrage at the way their Senate colleagues are raking Hill over the coals. And who could forget the televised discussions of

and otherwise—were never supported.

As for what makes Thomas tick, the book falters—after doing yeoman work exploring the chameleon-like ability of the former rebel to adopt the ideological flavor of the month. Phelps and Winternitz trace his rise to power in Washington beginning in 1981. As a young Capitol Hill aide, Thomas allied himself with Jay Parker, a black ultraconservative who had worked in the Presidential campaign of Barry Goldwater. Parker, who by then was lobbying for the South African government, was a key recruiter of black conservatives for service in the Reagan Administration.

Once aboard as head of the EEOC, Thomas grew into a stalwart supporter of the Reagan revolution and by 1988 was on the lecture circuit, regularly addressing such conservative groups as the Cato Institute and the Heritage Foundation. His political trench work was rewarded in 1989, when President

Bush picked him for seat on the influential U.S. Court of Appeals for the District of Columbia Circuit.

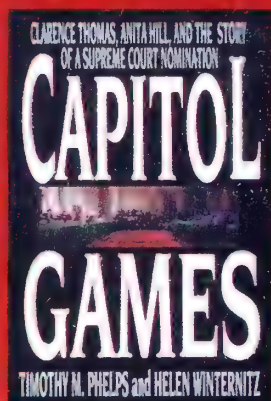
But the authors leave to future books to explore in detail the contradictions inherent in Thomas—as a black man living in a white man's world, a man whose career appears to be devoted to defying stereotypes of his race. To what extent Thomas was a victim of the process, forced to submit to the handling provided by the White House, remains unclear.

That question, of course, bears on Thomas' character in light of such actions as his preposterous statement that he had never discussed or debated *Roe v. Wade*, the 1973 ruling that legalized abortion. Rather than answer questions truthfully, Thomas—as would perhaps any candidate determined to win confirmation—dissembled and evaded, so as not to offend the interest groups that could quash the nomination. The real power of the book comes from reading about all the small-mindedness and petty deceit inherent in the confirmation process. This, in the end, is the most offensive aspect of the sordid affair. It grates against our teaching that the high court is too sacred, too important an institution to be desecrated by politicians and special interests.

BY TIM SMA

Smart, *BW's* former legal affairs correspondent, covered the Thomas hearings. He is now Connecticut bureau chief.

Behind Thomas' triumph is a larger story: The degradation of a once-sacred process



genitalia, erotomania, and varieties of raunchy pornography that many Americans probably never knew existed?

It's all good theater—indeed the best that TV could offer last fall. Phelps and Winternitz accurately capture the atmosphere: a boisterous carnival of competing interests clamoring for media attention. What *Capitol Games* does not adequately do is explain how the confirmation process degenerated into its current form. Nor does it tell us what makes Clarence Thomas tick. And it undertakes no extra legwork in attempting to answer the \$64,000 question: Who was telling the truth?

The last point first: The authors clearly suggest that Thomas was lying, and they make a case that Anita Hill had nothing to gain but ridicule by coming forth with her allegations. They also note that the wild claims about her possible hidden motivations—psychological

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CLINTON WOULD PRIME THE PUMP—WITH AN EYEDROPPER

BY PAUL CRAIG ROBERTS



The Democrat is pushing a puny package that would do little to juice up the economy. In fact, the net effect of Clintonomics would be to reduce investment and employment and send capital fleeing

If President George Bush's economic record is as bad as Democrats claim, Presidential candidate Bill Clinton is guilty of fiddling while Rome burns. The meager economic plan he has proposed is dwarfed by the rhetoric used to describe the economy's ills. If the Democrats are right that we have the worst economy since the Great Depression, their remedy is woefully inadequate.

No matter how it is cut, Clintonomics is a picayune economic package. From the standpoint of traditional pump-priming, adding \$20 billion annually in public works projects would not have a discernible effect on a \$6 trillion economy in which the government already spends \$1.5 trillion. The Bush Administration's transportation bill, which Congress passed, is actually larger than Clinton's package, and it hasn't revived the economy.

Clinton's private-investment initiatives are even more pathetic. He proposes to make permanent the current "temporary" research and development tax credit, to give a tax credit for new investment, and to give companies a 50% capital-gains exclusion for new investment in plant and equipment. Whatever this package would do to lower the cost of capital and spur investment is more than wiped out by the proposed increase in personal income tax rates that would reduce the aftertax earnings on investment. Indeed, the money pumped in through Clinton's investment incentives is largely eaten up by increased fines and taxes for corporate polluters.

DEBT ILLUSIONS. If one looks to deficit reduction to spur the economy by releasing savings for private investment, the plan also disappoints. It proposes \$220 billion in new spending and \$150 billion in new taxes. The gap is filled with unspecified additional defense cuts, a freeze on hiring government consultants, a cut in congressional staff, beefed-up IRS enforcement—even a cut in price supports for honey. This barely qualifies as good "smoke and mirrors" budget art.

The overall impact of Clintonomics would be to reduce investment and employment and to spark capital flight. Employers already have numerous disincentives to hire, and Clinton would add two big ones under the names of "universal access to health care" and "job retraining." The "pay or play" health care plan is a \$30 billion tax on private business. The job retraining program is financed with a \$38.5 billion payroll tax. Raising the cost of employment is not the way to create more jobs.

Clinton also plans new taxes on foreign investment that would leave the U.S. less integrated in the world economy. He proposes to repeal the tax deferral of foreign-source in-

come. For example, a foreign subsidiary of an American multinational would find the reinvestment of its earnings abroad subject to U.S. income taxes. Clinton claims this would eliminate the tax subsidy for exporting jobs, but it would actually make the U.S. more of a debtor nation by reducing our foreign investments and future income from them.

WASTED ENERGY. Clintonomics also targets foreign investors in the U.S., such as the recently announced plans of the German car maker BMW, to build a \$635 million plant in South Carolina. Under Clinton's proposed "transfer pricing" rules, BMW's internal pricing would be regulated in order to increase the taxable income attributable to the U.S. plant. Running off foreign investors is not the way to raise U.S. productivity and taxable wages.

The Democratic platform calls for adding to this economically depressing brew a costly new clean-water act and a fine on those who waste energy. Just imagine the regulatory bureaucrats drawing up the definition of energy waste. Nothing would escape—long, hot showers, overcooked vegetables, even joyriding in cars. Increased fines from energy waste would become a permanent deficit-reduction item.

The day pension-fund managers and other investors conclude that the Democrats' lengthy list of mandated costs precludes a rising stock market, they will shift more of their funds abroad. As more money leaves the country, the dollar will weaken, thus accelerating the trend. The implication of Clintonomics, therefore, is exchange controls, and since the dollar is the world's reserve currency, this implies massive international crisis that would disrupt world trade in a way not experienced since the Great Depression.

Clinton's anticapitalist policy is rooted in his claim that "during the 1980s, the wealthiest 1% of Americans got 70% of the gains." This erroneous assertion is based on dubious manipulations of dubious data that the Congressional Budget Office acknowledges is flawed and has dropped from the information that it supplies to Congress.

If Bush is as bad as Clinton says, the challenge owes us something better than a campaign based on a lie. Bush is vulnerable on the economic growth issue, and Clinton's decision to build his campaign around the "fairness" issue is an indication that his administration would implement a redistributive rather than a pro-growth economic policy. On the other hand, a Bush victory promises little more than a continuation of a stalled economy, as policymakers try to balance the budget while killing the economy with disincentives. In 1992, the economy does not have a candidate.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

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Economic Trends

BY MICHAEL J. MANDEL

ONLY AUSTERITY—AND TIME—COULD MAKE PEROT'S PLAN WORK

One thing's certain about the much-awaited Perot plan for cutting the federal budget deficit: If it were ever implemented, screams would be heard from one end of the country to the other. The plan would hit almost everyone in the pocketbook, with cutbacks in medicare and medicaid, limits on the mortgage deduction, higher income-tax rates for high-income households, and big jumps in gasoline and tobacco taxes. But the plan would likely produce a budget surplus by 1998. Would the gains from eliminating the deficit be worth it?

Maybe. Econometric simulations done by DRI/McGraw-Hill at the request of the Perot organization show some big

The key to achieving these gains, however, is credibility: whether the bond market believes Washington is finally serious about cutting the deficit. If the newly elected President has a clear and believable plan—and investors take him at his word—interest rates would immediately fall, thereby boosting investment (charts). "The more credible the plan is," notes David Resler, an economist at Nomura Securities International Inc., "the more favorably the bond market will react." In that best of all possible worlds, the budget deficit could be eliminated without costing any jobs. But if investors take a skeptical attitude and wait for concrete evidence of a smaller deficit, interest rates won't start falling until 1995, and there could be a loss of 650,000 jobs as the higher taxes and spending cutbacks slow the economy.

Even if the markets are convinced that Washington is committed to wiping out the deficit, Americans would still have to make sacrifices for the long run. According to the DRI/McGraw-Hill analysis, the Perot plan would depress consumer spending for years. In 1998, when the budget would finally be balanced, personal consumption would be about 2% lower than it would have been without cutting the deficit. It would be well into the next century before the benefits of higher investment and higher productivity showed up as increased consumer spending, which ultimately is what really concerns people.

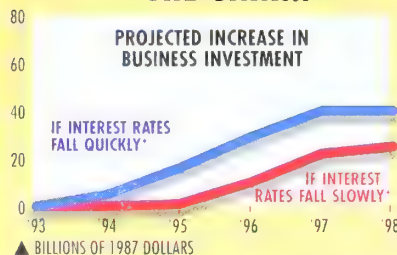
That's a long time alongside the four-year cycle of electoral politics. And that's one reason why a balanced budget may be impossible in this decade.

jobs than they usually do at the beginning of an upturn. Over the past year government employment has risen by 1%. By comparison, the public sector job gain in the first year of past recoveries has averaged 0.1%, calculates Mark M. Zandi, an economist at Regional Financial Associates Inc., making government the only employment category in which employment recovery has outstripped the norm. And while the jobless rate in the private sector rose from 7.4% in January to 8% in June, the jobless rate among government workers dropped from 3.9% to 3.5%, which helped hold down the overall increase.

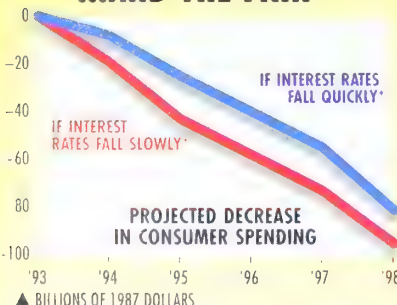
But will budget-strapped government be able to keep hiring if the economy loses momentum again? "They won't motor ahead, but they'll trend higher," says Steven D. Gold, director of the Center for the Study of the States at the State University of New York at Albany. "People don't want their services reduced." And with school enrollments increasing, it's likely that the demand for teachers will continue to grow. That means that oft-berated government jobs may again turn out to be a lifeline for a tottering economy.

PEROT'S PLAN

THE GAIN...



...AND THE PAIN



* IN RESPONSE TO PROMISED DEFICIT CUTS
DATA: DRI/MCGRAW HILL

benefits. By 1998, long-term interest rates would be more than two percentage points lower. Housing starts and exports would rise, and business investment in 1998 could be as much as 5% higher. While that may not sound like much, over a few years it could add up to a significant boost in U.S. productivity and output. Says John White, issues director for the Perot Petition Committee: "It gets us back to where we need to be to be competitive as a world power."

A BRIGHT SPOT ON THE JOBS FRONT: GOVERNMENT

Any plan to cut the deficit, no matter how good, had better hide its time: With each week bringing news of more layoffs by big companies, the public sector has become one of the few sources of new jobs in a weak labor market. Since June, 1991, which many economists consider the start of the recovery, federal, state, and local governments have added 191,000 jobs—mainly education and health-related posts in local government. Contrast that with the private sector, which lost 65,000 jobs over the past year—the only time in postwar history when private payrolls have shrunk in the first year of the recovery.

Indeed, while the private sector is shrinking, governments are adding more

THE WAGE GAP IS WIDENING IN OTHER COUNTRIES, TOO

Liberals and conservatives agree: Wage inequality in the U.S. rose significantly in the 1980s. The pay gap between well-educated and poorly educated workers clearly widened, as did the wage difference between experienced and inexperienced workers. But what still in dispute is why inequality has widened so much. Some economists point to domestic causes, such as deteriorating school systems and the social and economic policies of Reagan and Bush. Others say global forces, such as increased foreign trade and changes in technology, which favor higher-skilled workers, are to blame.

Now, there's new evidence in favor of the global explanations. In a recent study, Steven J. Davis of the National Bureau of Economic Research and the University of Chicago argues that at the same time that wage inequality was rising in the U.S., it was also going up all across the industrialized world—in Canada, Britain, France, Japan, and West Germany. That makes it more likely that low-wage workers are being hurt by worldwide changes rather than anything unique to the U.S.—and less likely that even a change of administration in Washington can reverse the trend.

LONG RATES ARE THE RECOVERY'S CATCH-22

In this economy, strong growth and falling long-term interest rates are as incompatible as Dan Quayle and Murphy Brown. Indeed, judging by the big July rally in the bond market, it seems as if a weak recovery is the only way to get long rates down.

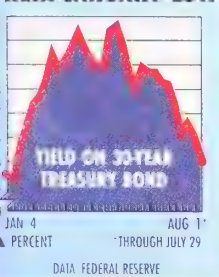
It's a tough dilemma. The recovery desperately needs lower long-term rates to revitalize housing and other credit-sensitive sectors and to allow households to repair their debt-ridden balance sheets. But investors in fixed-income securities worry that the seeds of future inflation are planted in strong recoveries, particularly when there are gargantuan federal deficits to finance. So they protect themselves by demanding higher yields on any sign that the economy is picking up steam.

Lately, those signs have been few and far between. In fact, the recovery looks so tenuous that consumers are losing faith. Job growth is too anemic to bring down the unemployment rate. Income gains are too puny to support a strong rebound in spending. And factory managers are so nonplussed that they are hesitant to expand their output, payrolls, and facilities.

A SEA CHANGE IN INVESTORS' MINDSET

All this disappointing news has not escaped the sharp eyes of the bond market. On July 29, the yield on 30-year Treasury bonds broke below January's five-year low of 7.39% (chart), before finally closing at 7.45%. In just the past month, long-term interest rates have fallen by one-half percentage point.

LONG RATES NEAR THEIR JANUARY LOW



rates to drift even lower during the summer.

The good news for the economy is that lower long-term rates will keep the recovery moving along in the second half—if only at a snail's pace. Most important, the steep decline in rates is sparking another upswing in the housing market.

Mortgage applications for home purchases in July are back to their high level of January, says the Mortgage

Bankers Assn. That's encouraging, because home buying fared poorly in the second quarter. Sales of existing homes fell 2.9% in June, to an annual rate of 3.36 million. It was the third straight decline in resales.

Lower mortgage rates can't do it all, though. Consumers must see a substantial pickup in jobs and incomes before they feel confident enough to undertake the biggest purchase most families ever make. Right now, however, the inability of this recovery to create jobs is causing increased uncertainty among consumers.

A CURE FOR THOSE SUMMER BLUES?

Indeed, America's mood turned decidedly downbeat in July. The Conference Board's index of consumer confidence tumbled 11.6 points, to 61, last month—the lowest level since March (chart).

The drop, apparent in almost all regions, reflected growing pessimism about current business conditions and the economy's prospects six months from now. The decline in the confidence index also echoed a reported three-point drop in the early July results of the University of Michigan's survey of consumer sentiment.

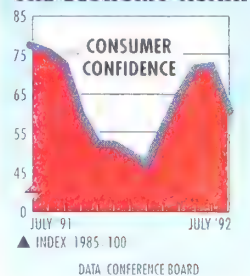
What's worrying consumers? Employment prospects. The Conference Board reports that the percentage of consumers who felt jobs were hard to get rose to 44.1%, from 40.6% in June. And a growing number believe that even fewer jobs will be available six months from now.

The Conference Board also notes that the Presidential campaign "is probably contributing to some public uncertainty and concern." That's especially true because the main focus of this year's campaign is the economy. The board said about a third of the July responses were completed during or after the Democratic convention.

The July performance mirrors the plunge that confidence took earlier this year. But those winter blues didn't prevent consumers from going on a first-quarter spending spree. And at least one economic report suggests that consumers may have cured their summer blues with a shopping trip as well.

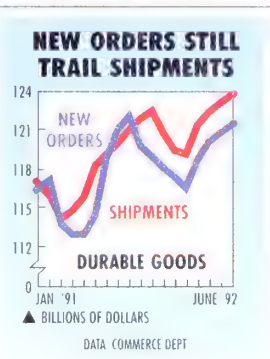
The Johnson Redbook Service, published by brokerage firm Lynch, Jones & Ryan Inc., reports that buying at department and chain stores soared in the first two weeks of July. Hot weather spurred purchases of summer clothing, air conditioners, and garden equipment. Sales so far

CONSUMERS SOUR ON THE ECONOMY AGAIN



Business Outlook

in July are up 4.7% from June, Johnson Redbook says. Although general merchandise sales account for only about 12% of all retail buying, a pickup in spending there suggests stronger demand overall.



The Redbook also predicts that the upcoming Christmas shopping season will be the best in four years. The report forecasts that department stores, discounters, and retail chains will see their combined sales rise 6% this holiday season compared with last November and December, when sales edged up by just 3.7%.

Consumers may be able to spend more freely this Christmas because lower interest rates will help shore up their financial foundations. One example: Lower rates have touched off a second wave of mortgage refinancings, which will put more money in homeowners' pockets. However, job growth between now and yearend will be the key determinant of holiday shopping.

FACTORY MANAGERS ARE ALSO IN A FUNK

The halting nature of the recovery, though, has been the primary reason for business hesitancy about beefing up payrolls. In addition, weak demand is keeping up the pressure to cut costs. For example, the trickle of new orders gives manufacturers no incentive to lift output beyond their existing capacity.

Makers of durable goods posted a 2.3% increase in orders in June, but that only offset May's 2.2% decline. Order gains in recent months have been so weak that the volume of bookings is still well below that for shipments (chart). The result: The backlog of unfilled orders, which typically begins to rise in a recovery, is still falling. It dropped 0.7% in June, the 10th consecutive decline. A fall-

ing backlog does not engender enough confidence in the future for factories to lift output or payrolls.

Little wonder then that Dun & Bradstreet Corp.'s latest survey of manufacturers shows that factories were less optimistic in June about industry conditions for the three months ahead. In fact, confidence flagged for the second consecutive month, led by a sharp drop in optimism among durable-goods producers.

But it's not just manufacturing that's under the gun. The pressure to keep work forces lean and costs down is pervasive across most industries, and it is the chief reason why the pace of labor costs continues to slow. The Labor Dept.'s employment cost index, which measures both wages and benefits, rose only 0.8% in the second quarter.

During the past year, labor costs have risen 3.4%. The annual pace has slowed sharply, by two percentage points in only two years (chart). Wage growth, at only 2.9%, is now the slowest in five years. And the pace of benefits, down to 5.5%, has ebbed to the lowest rate in three years.

The slowdown in labor costs, combined with gains in productivity that reduce unit costs, is the main reason fixed-income investors have nothing to fear from inflation, certainly through next year. Until labor costs start to rise faster, there is no reason to worry that the wage-price spiral is gearing up again. Rather, labor costs seem more likely to slow further in 1993 on the face of a weak recovery and the drive to cut costs.

To be sure, any sign that lower interest rates are sparking a strong pickup in growth will quickly revive the inflation fears of investors. But for now, at least, the arguments for continued low inflation seem to be winning out. As the decline in long rates should open up enough room for the recovery to keep crawling along in the second half



THE WEEK AHEAD

NAPM SURVEY

Monday, Aug. 3, 10 a.m.

The index of industrial activity compiled by the National Association of Purchasing Management probably rose to 53.7% in July, up from 52.8% in June. That's the forecast of economists polled by MMS International, a division of McGraw-Hill Inc. The expected reading would indicate that the factory recovery built up a bit more steam in July.

CONSTRUCTION SPENDING

Monday, Aug. 3, 10 a.m.

Spending on building projects likely increased by just 0.2% in June, the same small gain as in May. Public-works spending probably accounted for most

of the increase. The decline in housing starts suggests that residential construction fell in June.

LEADING INDICATORS

Tuesday, Aug. 4, 8:30 a.m.

The government's composite index of leading indicators probably fell 0.2% in June, after a 0.6% gain in May. Declines in stock prices, factory hours, and building permits offset strength in orders and materials prices. The June decline would be the first loss in the leading index this year.

EMPLOYMENT

Friday, Aug. 7, 8:30 a.m.

The MMS consensus calls for a 109,000 increase in nonfarm payrolls in July, off-

setting the unexpected drop of 117,000 in June. The most optimistic forecast, however, calls for a very large July gain of 250,000 in all nonfarm jobs, with factory payrolls adding 75,000. The MMS economists also expect the unemployment rate to edge down slightly, to 7.7% in July from 7.8% in June.

INSTALLMENT CREDIT

Friday, Aug. 7

Consumers likely lopped off an additional \$1 billion from their debt loads in June. Auto financing continues to decline, and the weak performance in new auto retail sales suggests little growth in revolving credit. Installment credit is expected to fall for four months in a row, including a \$2.4 billion drop in May.



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AUGUST 10, 1992

DIAMONDS AND DIRT

A FIRED EXECUTIVE'S PRICE-FIXING CHARGES DOG GE

John F. Welch Jr., chairman of General Electric Co., fought one fire when he testified before a House Energy & Commerce subcommittee on July 29. Welch tried to bring to a close the saga of GE's Aircraft Engines Div. falsely billing the U.S. for military sales to Israel during the 1980s. Employees in the engine unit had worked with Rami Dotan, a now-imprisoned former Israeli general, to divert military aid money illegally. GE pleaded guilty to four felonies and agreed to pay \$69 million to settle civil and criminal charges.

But Welch has another blaze at his back. GE also is grappling with charges that it fixed prices of industrial diamonds, parked stock with Japan's Mitsui & Co., and engaged in a host of anticompetitive and unethical practices related to its synthetic diamond unit, GE Supera-brasives, located near Columbus, Ohio. The diamond charges, first aired in a wrongful discharge suit filed in U.S. District Court in Cincinnati by former GE Vice-President and GES General Manager Edward J. Russell, now are under investigation by a federal grand jury in Columbus. The suit alleges misconduct by high-ranking GE officials.

PALACE REVOLT. GE derides Russell's claims. Welch himself has called them "pure nonsense." A company spokeswoman calls them "unsubstantiated allegations by someone removed for poor performance." One GE lawyer told the court in Cincinnati: "He never blew any whistles at all, and we think we can prove it. Even if he did, he wasn't fired for it."

GE's defense in the Cincinnati case is marked by aggressive attempts to discredit Russell. The company claims that Russell's poor management led to an uprising among his staff. It even contends that his wife, a former GES employee, was improperly asked to make key business decisions. Russell says such contentions are mostly fanciful.

While the suit could still be dismissed, the judge in the case on July 13 denied

requests for a stay and set Feb. 21, 1994, as a trial date. GE wants the trial to focus on the question of whether Russell was wrongfully fired. It is conducting an internal investigation of his charges and says that a point-by-point response to them will come before the proper audience: the grand jury.

The problem for GE is that even if its trial strategy works, Russell has raised serious issues that now figure to drag on. "I think this is going to stay around for a while," says an official at a rival diamond maker.

For now, anyway, sources close to GE say it's spending in the neighborhood of \$1 million a month to fight off the lawsuits that have proliferated as a result. They now include at least three shareholder suits and an equal number of class actions filed by customers. But the federal grand jury investigation is the most worrisome for GE.

LONG LIST. The panel is probing both the stock-parking and price-fixing allegations. It has issued a 28-page subpoena that has GE tracking down documents in Frankfurt, Singapore, and Tokyo. By mid-June, the grand jury had asked for "hundreds of thousands of documents," according to GE attorney Irvin B. Nathan of the Washington firm Arnold & Porter.

More potentially damaging than the documents, though, is Russell, who is working with federal investigators. Russell is given to looking up notes from old conversations in a green spiral notebook that he carries around with him. What's more, Russell says that while at GES, he taped some of his conversations, a practice that's legal in Ohio. As one source close

Did GE and De Beers try to set prices for industrial diamonds?

to the investigation puts it: "It's obvious he was a notetaker."

GE seems up for a fight. In June, lawyer at Arnold & Porter called Alis Pfeister, Russell's ex-wife, who divorced him seven years ago. Asked to explain the call, a GE spokesman answers: "leave it to your imagination." Pfeister, lawyer, says: "If this is a business suit I'm not sure as an ex-wife I should be called to dig up dirt."

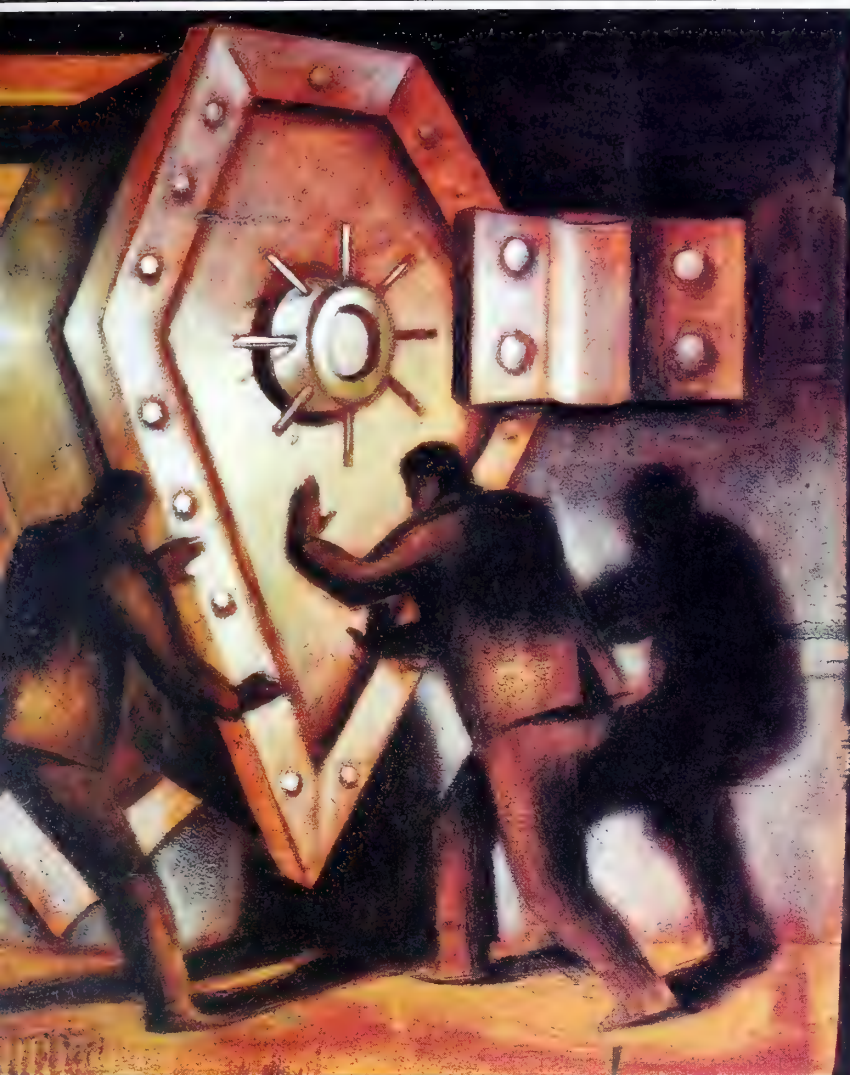
Russell has a long way to go to prove

POINTING FINGERS AND THROWING MUD

After GE fired Vice-President Edward Russell, he lodged charges of price-rigging and stock-parking against the company and his old bosses. They claim he's simply embittered over his dismissal and bent on revenge



RUSSELL: TALKING TO PRO



charges. But some of them, at least, can't simply be dismissed as the grumblings of a vengeful ex-employee. His suit claims, for instance, that GE Plastics sold its stake in Asahi Diamond Industrial Co. to Mitsui to pump up 1989 earnings. But GE, says Russell, didn't intend to relinquish control of the shares. So, says Russell's suit, GE agreed to repurchase the stock later at the original sale price and pay Mitsui's carrying costs. Such an agreement could

be construed as illegal stock-parking, legal experts say.

Mitsui had no comment except to acknowledge that a Mitsui manager sent a letter, of which BUSINESS WEEK has a copy, to GE Plastics outlining the terms of the stock deal. The Mitsui letter could be construed as supporting Russell's charge that GE wanted to buy the shares back but that GE's accounting department objected to the arrangement. GE flatly denies the whole sequence of

events Russell describes. Russell's gravest charge—that GE fixed the prices of synthetic diamonds—is given credence by some industry players. These sources point to the history of the business since GE first developed synthetic diamonds in the mid-1950s.

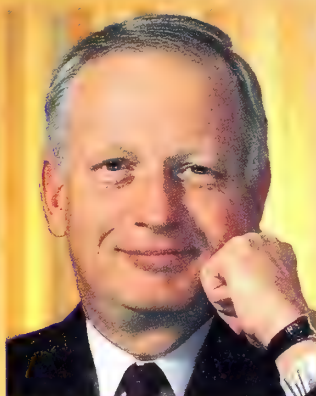
The industrial diamond business has always been secretive and highly concentrated. Together, GE and South Africa's De Beers Consolidated Mines Ltd. control at least 80% of this \$600 million business, according to users of industrial diamonds. Each did especially well on what are known as saw-grade diamonds, so named because they are used in saws that cut rock and concrete.

As Russell tells it, his boss, then-GE Plastics Chief and Senior Vice-President Glen H. Hiner, now CEO of Owens-Corning Fiberglas Corp., started meeting with De Beers in 1989. GE acknowledges in court papers that Hiner met with De Beers personnel during the 1989-91 period. Russell argues that Hiner was desperate to pump up the profits of GE's plastics business, of which industrial diamonds were a part. That's why, says Russell, Hiner met in September, 1991, in London with top De Beers executives. GE denies that this specific meeting took place. Hiner, who wouldn't comment for this story, earlier called Russell's accusations "groundless" and "ridiculous."

BIG CUSTOMERS. De Beers announced list-price increases of 12% to 15% on industrial diamonds effective early this year. While GE won't confirm it, customers say GE announced similar hikes at about the same time (chart). Yet the price of man-made industrial diamonds has declined steadily since they came on the market 35 years ago, note customers and competitors. Moreover, an increase this year seemed odd to many in the industry, given weak demand in oil drilling and heavy manufacturing. Both are big customers for the diamonds. One smaller rival called the price hikes "inexplicable."



'PURE NONSENSE'



HINER: PRESSURE FOR PROFITS?

HOW DIAMOND PRICES JUMPED

Price per carat for a large industrial customer of an average-grade metal-blade saw diamond



▲ DOLLARS

DATA: BW

GE argues that nothing untoward happened between it and De Beers, and that there can be good reasons for meeting with competitors. However, it appears such meetings were rare in the past. E. Louis Kaperanos, general manager of GE's diamond business from 1970 to 1986, says he had one meeting with De Beers. Kaper-

naros, who takes care to note that he's not casting aspersions on Hiner, says that his predecessor had no meetings with De Beers during his tenure, and that as far as he knows, the only other GE officials who did so were lawyers.

For its part, whatever the subject of a given meeting, De Beers must be careful where it does business to avoid becoming subject to U.S. antitrust regulation. Despite its protests to the contrary, the South African company is widely seen to exercise cartel control over the natural diamond gemstone business. Through its London-based Central Selling Organisation, it controls the marketing and distribution of an estimated 85% of the world's gem-diamond sales. Moreover, in 1976 it pleaded no contest to charges that its Irish industrial diamond unit violated U.S. antitrust law.

That's the last time any of De Beers' businesses have run afoul of U.S. anti-trust enforcers. A source familiar with De Beers' legal situation, however, notes that ever since the U.S. Supreme Court in the mid-1940s dismissed a U.S. anti-trust action against the company, "De Beers has been terribly careful to do nothing that would give it a presence in the U.S." De Beers strongly denies Russell's charges of price-fixing, calling the industrial diamond business "fiercely competitive."

Russell also has charged that Hiner squelched his plan to get GE into the gemstone market because it would upset De Beers. Since 1970, GE has been able to make gemstones, although it says the process is too costly to be economically justifiable. But Russell claims that new technology makes it possible to produce gemstones profitably. He says that he and others at General Electric met with members of the Swarovski family, Austrian jewelry retailers, to discuss setting up a venture to sell large blue



GE HAS HAD GREAT SUCCESS IN PRODUCING DIAMONDS FOR INDUSTRIAL SAWS

artificial gems. The Swarovskis refuse to comment.

Russell's claim, which GE denies, isn't preposterous. Japan's Sumitomo Electric Industries Ltd., for instance, makes some large crystals that sometimes find their way into the gem market, say sources in the diamond business. But Kapernaros and others are skeptical. It's also not at all clear this would be a sensible business decision, they say, even if it may be technically possible.

Russell's long list of charges also includes allegations that the company improperly covered some expenses run up by employees. His suit contends, for instance, that one manager at the GES annual sales meeting in 1990 "caused approximately \$5,000 in damages to a hotel

by getting drunk, tossing beer bottles through windows, and punching holes in walls." When Russell reported the incident to a superior, the superior, he was told not to be concerned with the \$5,000, since earlier sales meetings resulted in damages many times that amount. GE denies Russell's account.

Such stories, while sensational, are less significant than Russell's allegations of GE's anticompetitive practices. Outsiders say GE has aggressively defended its diamond business.

Mahlon D. Dennis, a former GE employee who runs a small synthetic-diamond company in Houston, says he stays out of saw-grade diamonds because GE and De Beers "would cave my head in." But a feared competitor and an antitrust violator are hardly one and the same thing.

A DAMNING TALE. Can Russell tell the difference? According to GE, Russell's job performance began to decline soon after his promotion to vice-president in February, 1990. "I fully realize the blame we had in 1990," Russell wrote Hiner after his incentive pay was reduced for that year. This cut, GE claims, reflected a poor performance, which says even now is showing up in the layoffs announced at GES in June. Russell's at the unit skidded from an above-

\$70 million in 1989 to just \$39 million in 1990, the company says.

GE's human resources chief, Senior Vice-President Jack O. Peiffer, tells a tale in an affidavit which, if true, would be damning: that problems between Russell and his staff got so bad that Peiffer was advised of a "palace revolt." In early 1991, he enlisted an industrial psychologist, Bradford D. Smart, to calm the situation. In court, he filed pages of vituperative anonymous quotations made to Smart about Russell. Referring to the Smart report, Peiffer's affidavit states: "Mr. Russell was viewed by his subordinates as being

RUSSELL VS. GENERAL ELECTRIC

Former GE Vice-President Edward J. Russell has sued General Electric in federal court in Cincinnati, charging that the company fired him for protesting illegal or unethical corporate actions. Here are his key charges, along with GE's responses:

PRICE-FIXING GE concedes that during the period 1989-91, Glen Hiner, then Russell's boss and head of GE Plastics, met with De Beers personnel. Russell alleges that the purpose was to fix prices for industrial diamonds. Both companies did raise their prices in early 1992, despite a worldwide recession. GE says nothing untoward took place between it and De Beers

STOCK PARKING Russell charges that GE Plastics, to boost its reported earnings, devised a plan in 1989 to sell stock in Asahi Diamond Industrial Co. to Mitsui & Co., while agreeing to buy it back later at a set price. A letter to GE from Mitsui implies such a deal. Such "parking" transactions, if not disclosed, may constitute securities fraud. The stock deal, Russell alleges, resulted in phantom profits of \$41 million for GE Plastics in 1989. GE denies the account

RESTRAINT OF COMPETITION Russell says that in July, 1990, he and his staff planned to challenge De Beers' control of the world diamond gemstone market. But, Russell contends, in January, 1991, Hiner killed a proposed gemstone joint venture for fear of upsetting De Beers. GE denies Russell's story

IMPROPER BUSINESS EXPENSES From 1989 until 1991, Russell alleges, GE wasted more than \$43,000 of shareholders' money on golf trips, bills for damage to hotels, and prostitutes, among other things. GE denies the charges

DATA: COURT DOCUMENTS, GENERAL ELECTRIC CO.

worthy, insecure, paranoid, indecisive, inconsistent, a poor communicator, unproductive."

In addition, says Peiffer's affidavit, Russell botched two presentations to Welch and other top GE executives. Peiffer, who conducted Russell's exit interview, contends that Russell committed no unethical or illegal practices or violations of company policies, apart from a complaint over an expense report. He cites, too, a February, 1990, certification by Russell that he was not aware of any violations of GE's policy requiring compliance with antitrust laws. Russell counters that most of the deeds he recounts took place after February, 1990.

DEFENSE. Not surprisingly, Russell spins the story a different spin. Some of the countercharges he considers laughable. Russell says that GE uses only a portion of Smart's findings, and that in 1990, Smart was satisfied with Russell's management. Smart himself was not available for comment. Although there's no question there were problems between Russell and some of his staff, he maintains the negative comments came from just three individuals who had clashed with him earlier over his insistence on proper business practices.

Russell contends he was making his exit the day he was fired and that the layoffs were down in 1991 because he had loaded Russell's unit with excessive overhead charges. Russell says his incentive pay was reduced not because of his unit's performance but because of problems at the Plastics Div., which Hiner was running. Hiner, too, he says, took an incentive pay cut. That he gave presentations to Welch is a "fabrication," says Russell.

But if Russell was raising his voice in protest, why would he be so shocked that GE responded by firing him? Russell answers that he thought he was protected by his officer status. But some forces wonder if Russell would have fought his case if he had gotten a better severance package. Because his termination becomes effective a few months before his 55th birthday, Russell won't get the same pension and insurance benefits as he would otherwise. He nonetheless feels that wouldn't have made much difference. "I really was appalled by" GE's conduct, he says.

That's not the issue the grand jury will consider. A Justice Dept. lawyer ruled on July 13 that the probe was still in its "fairly early" stages. It will attempt to determine whether Russell is a disgruntled employee maligning his former company or a wronged executive outrageously taking his story public.

By Zachary Schiller in Cincinnati, with Michael Gross in Tokyo, Lisa Driscoll in New York, and bureau reports

DEFENSE

LORAL COULD WIND UP BEING THE BIGGEST GUN OF ALL

The LTV deal is the latest stroke in the armsmaker's buy-cheap strategy

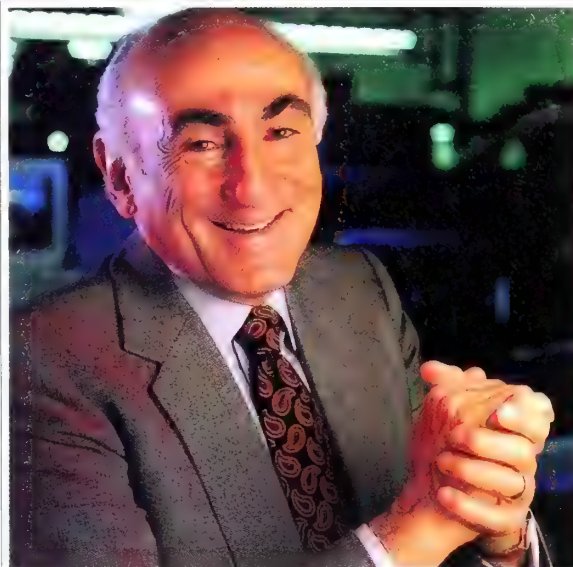
Bernard L. Schwartz, the wily chairman of Loral Corp., has long been the defense industry's savviest dealmaker. So when he was elbowed aside by giants such as Lockheed, Martin Marietta, and France's Thomson during the long battle to buy the defense and aerospace assets of bankrupt LTV Corp., many industry gurus wondered if Schwartz had lost his touch. But as he's done so often in the past, Schwartz surprised the experts: In late July, he swooped in with an eleventh-hour offer. Though rival bids could still appear, Schwartz now has the inside track to buy LTV's missile unit for \$240 million—20%

less than Thomson was offering. "I don't see anybody being able to mount a serious attack on our position," Schwartz says.

The maneuver was vintage Schwartz. If, as many analysts expect, the LTV purchase gains bankruptcy-court and government approvals, it will be his seventh sizable defense acquisition since 1985. He has paid \$1.6 billion to snap up defense units from such name companies as Goodyear, Honeywell, and Ford—at ever-lower prices, as plunging U.S. defense spending has made armsmakers seem too risky for other buyers (table).

WHIP HAND. So far, the deals look smart. Loral's revenues are up sixfold in seven years, to \$2.9 billion for the year ended Mar. 31. And Schwartz has made his acquisitions pay off by whipping them into shape with cost-cutting measures and better management. Margins have suffered from defense-spending cutbacks, but Loral still netted \$121.8 million last year. "Bernard has a great reputation as being a very imaginative purchaser," says Martin Marietta Chairman Norman R. Augustine. "He's putting together a first-class company."

The question now: With defense spending in a seemingly endless downward spiral, when will it all catch up



CEO SCHWARTZ: STILL BUYING AS DEFENSE SPENDING FALLS

with Loral? Some analysts think that Schwartz, 66, is on a treadmill that keeps going faster. As contracts dry up, Loral's existing operations have begun shrinking, they say, forcing Schwartz to acquire additional big properties to keep up growth. But potential acquisitions, including LTV's missile business, are shrinking, too. Funding for its two main missile programs, which accounted for the lion's share of its \$745 in revenues last year, winds down between 1995 and 1998. Given that, most of Loral's big rivals contend that even the reduced price Schwartz is paying is too much.

Schwartz, though, has always thrived on flying against the prevailing defense-industry wind. In a clubby business traditionally dominated by WASP engineers, he's an outsider—a poor Jewish kid from

LORAL'S BARGAIN-BASEMENT SHOPPING SPREE

Year	Acquisition	Annual sales	Purchase price
Millions of dollars			
1985	Rolm military computer unit	\$81	\$88
1987	Goodyear Aerospace	681	581
1989	Fairchild Weston	270	177
1989	Honeywell Electro-Optics Div.	135	54
1990	Ford Aerospace	1,800	685
1991	Librascope	75	9
1992*	LTV Missiles	745	240

*Pending

SOURCE: COMPANY REPORTS

Brooklyn who bootstrapped his way up. True to his roots, he remains a Democrat in an industry full of rock-ribbed Republicans. He learned dealmaking by working with New York financier Saul P. Steinberg. He took the helm at Loral 20 years ago when it was a troubled jumble of assets. He turned it around by selling everything but a defense electronics unit, and then began buying more defense businesses.

Schwartz' trademarks are speed and daring coupled with financial discipline. The LTV deal, he contends, is a prime example. He nosed around the bidding for months. But he mainly watched until Thomson's leading \$450 million joint bid with Carlyle Group, a Washington investment bank, was stopped by fierce political opposition to foreign ownership of defense companies. Schwartz then put together a formal offer in just 72 hours, but only after a looming July 31 bankruptcy-court deadline induced a nervous Carlyle and its partner, Northrop Corp., to raise their offer for LTV's aerospace unit, cutting the missile business' price.

Raytheon Co., the other main bidder, won't comment. But insiders in the negotiations say it was too concerned that the acquisition would depress its earnings to sign an agreement so fast. "Schwartz moved quickly and the other [bidders] couldn't," says David Rubenstein, Carlyle's managing director.

'LORALIZING.' As in past deals, Schwartz says he went into the LTV deal with a plan. If he wins ownership, he claims he can recoup LTV's purchase price in four or five years out of the operation's \$40 million-plus annual cash flow. In the meantime, he and Loral President Frank C. Lanza—an engineer who plays Mr. Inside to Schwartz' Mr. Outside—will begin "Loralizing" LTV. In the past, this approach has meant dispensing with the acquired company's executives and instilling its managers with Loral's gospel of speed and stringent cost controls. Schwartz confidently predicts that the formula will allow the LTV operation to start adding to Loral's earnings almost at once.

With the LTV deal not even bagged yet, Schwartz already is scouting his next move. Loral's long-term debt is about 30% of capital, and Schwartz is paying for most of LTV in cash. Schwartz is already hinting that his next acquisition may be a big one, perhaps as big as Loral itself. Says Schwartz: "I don't think there's any [defense] company that we don't have the resources to buy."

Say that again? Bernard Schwartz is still on the prowl.

By Thane Peterson in New York and Amy Borrus in Washington, with bureau reports

DEALS

STILL PREACHING FAITH IN RELIANCE

But if Saul Steinberg's insurance group is healthy, why is it limping?

Saul P. Steinberg is out to convince the world that the turkey he bought is really an eagle. Reliance Group Holdings Inc., his highly leveraged insurance concern, has suffered through a four-year property and casualty price war and two ill-fated acquisitions. Earnings have been erratic for some time. Last year alone, Reliance booked a \$118 million loss.

But to hear Steinberg tell it, Manhattan-based Reliance is turning around. For this year's first quarter, Reliance reported a \$19 million profit, compared with a \$3.6 million loss during the comparable period in 1991. Last year, the company took a \$94 million write-off for its money-losing investment in Tele-mundo Group Inc., a Spanish-language television network. And on July 24, Reliance announced the sale of Frank B. Hall & Co., a red-ink-gushing insurance broker, to Aon Corp. for \$475 million. All Reliance has to do now, he says, is wait for the wretched property-casualty market to improve.

Trouble is, Reliance's position remains pretty precarious. Over the coming four years, a massive amount of debt will come due (chart), and many analysts question whether the company can handle it. Plus, even if the property-casualty environment finally improves, Reliance is heavily exposed in some very hairy areas where huge accident claims can squelch profits—like toxic-waste hauling and other environmental coverage. Worse, Reliance will probably only net about \$50 million from the Hall sale, since it retains the firm's debts. No wonder Wall Street shrugged at the sale: Reliance's stock barely budged above 5, where it has languished for months.

If Reliance has hurt Steinberg's pride, it has not damaged his wallet. In 1991, he raked in \$6 million as chief executive, far more than peers with better track records. At highly profitable American International Group Inc., for instance, Maurice R. Greenberg earned only \$1.9 million. Steinberg defends his compensa-



THE DEALMAKER: STEINBERG MAKES THE SOCIAL SCENE WITH HIS WIFE, GAYFRYD

tion, which is based on how well Reliance's insurance operations do relative to the industry's dismal average. "That's easy," Steinberg concedes. Of course Reliance has dealt some paper losses. Steinberg, whose family owns 77% of the company. The stock is at half 1986 public offering price of 10.

GREENMAIL PAYMENTS. Reliance and Steinberg, 52, has scored several successes. A fixture on the social scene with third wife Gayfryd, his personal worth has been estimated at more than \$300 million. A major source of wealth is greenmail payments from 1980s takeover targets such as Walt Disney, Green Tree Acceptance, and Loral & Nettleton Financial.

That won't do much to rescue Reliance from the \$1 billion debt load that teeters atop just \$372 million in equity. Moody's Investors Service Inc. last year bumped Reliance's financial-strength rating down to junk status. The rating agencies are most upset by Reliance's practice of milking \$723 million from insurance operating units since 1987 to pay interest.

Steinberg insists that the debt burden

is no real concern: "I can sell more assets, then refinance debt." And he was sanguine that his company's underwriting knowhow will make winners out of risky insurance lines. Given Reliance's wobbly flight thus far, he had better hope so.

By Larry Light in New York

THE BIG OVERHANG AT RELIANCE



THE BRONFFIRE OF THE VANITIES?

Canada's Bronfmans may follow O&Y into bankruptcy court

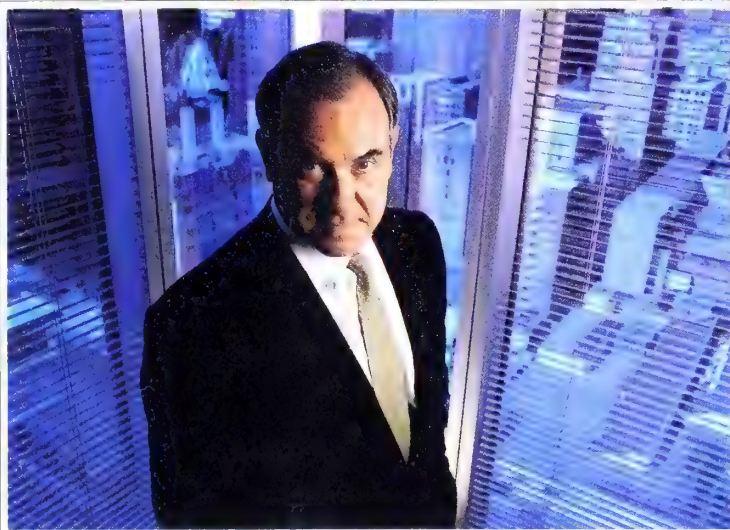
In 1988, Canadian property giant Bramalea Ltd. bought 238 undeveloped lots in Santa Clarita, Calif., a new bedroom community some 45 miles northeast of Los Angeles. The \$52 million purchase—a price one land broker calls “the highest ever paid in Santa Clarita”—was one of a series of buys in southern California and Ontario that tripped Bramalea's land holdings to \$1.3 billion from 1988 to 1991. And it's the kind of deal Bramalea has come to regret. Now, it would be lucky to sell some of its land for half of what it paid, and the debt it took to fund its buying spree threatens to sink the whole company.

Bramalea's travails are the worst of a host of problems afflicting the empire of Peter and Edward Bronfman, whose Edper Group comprises Canada's largest collection of corporate assets. The Bronfmans' Trizec Corp., North America's largest publicly traded developer, owns 72% of Bramalea. The stake is worth far less than it once was. Bramalea stock trades at about 75¢ a share on the Toronto Stock Exchange, down from its 1989 peak of more than \$20. On June 30, Bramalea suspended its dividend.

THE THING? The stock reflects the company's gloomy outlook. Bramalea is in a desperate struggle to avoid following Olympia & York Developments Ltd. into Canadian bankruptcy court. On July 30, the grace period on Bramalea's default on a \$4.4 million interest payment was set to expire. Chief Executive Marvin G. Marshall says he's confident the company's 50 or so creditors, led by Canada's five major banks, won't rush to force a court ruling. But Marshall concedes he doesn't have much time to agree with them on a plan to restructure Bramalea's \$4.1 billion debt.

Marshall says he hopes to have a plan “approved” by the end of August and fully implemented by the

end of September.” But he allows that his proposed restructuring, which calls for shrinking Bramalea to half its current \$5.3 billion in assets, would take five years to work. The company's Canadian bankers, none of whom would comment for this story, may not wait that long, according to sources familiar with their thinking. “It is virtually a certainty [Bramalea] will end up” in bankruptcy



CEO MARSHALL: IT WOULD TAKE FIVE YEARS TO RESTRUCTURE BRAMALEA

court, predicts Alain Tuchmaier, an analyst at McLean McCarthy Inc., a Toronto stock brokerage firm.

If it weren't for the late-'80s land grab, Bramalea might now be hailed as one of real estate's savviest survivors. It owns one of North America's largest portfolios of income-producing properties, including more than 30 million square feet of shopping malls and office space in Canada and the U.S. Its Canadian malls and offices are more than 90% leased, while its completed U.S. of-

fices are 83% filled. Operating earnings of those properties rose 4%, to \$213 million, in the fiscal year ended last Oct. 31.

But the company's other unit, which includes homebuilding and land development in Ontario and Southern California, is a financial black hole. Operating earnings nosedived to \$23 million in fiscal 1991, down from \$102 million in 1989. And in the six months ended Apr. 30, they fell to a mere \$3 million. The earnings drop, combined with interest charges tied to Bramalea's \$1.3 billion in debt on undeveloped land, puts the company in a liquidity squeeze. Net cash flow was a negative \$169 million in fiscal 1991 and a negative \$78 million in the first half of fiscal 1992 (chart).

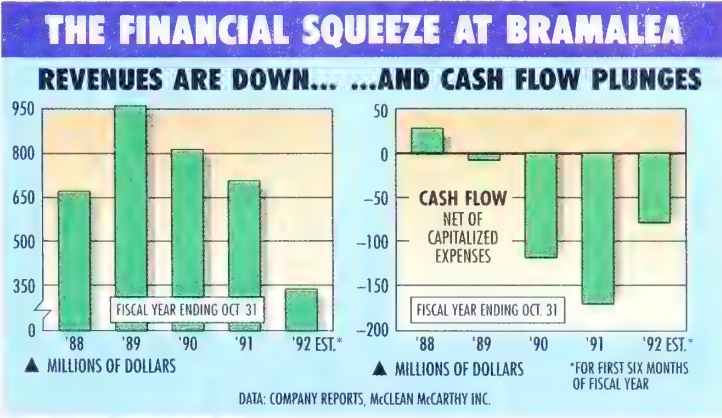
'A LOSER.' Bramalea hasn't given up on developing and selling its vast land reserves. But many projects are struggling. Newport Coast, Calif., Bramalea's swankiest development, has sold only four houses—priced at up to \$2.1 million. It must sell 12 this year to make money. Similarly, its San Marino project in Orange County “is a loser,” says one California realty expert. “They're lucky if they sell one home a month.”

Bramalea's only hope is to persuade its lenders to give it more time. Marshall, a Texas developer brought in by Trizec in 1990, is proposing to sell \$1.3 billion in assets by 1997, including nine shopping malls scattered across the U.S. Lenders are being asked to take equity in other projects in exchange for some of their loans. That would help trim debt to a manageable \$1.7 billion in five years, and leave Bramalea with property holdings of 25 million square feet.

Most observers give Bramalea credit for handling its negotiations far better than O&Y, which antagonized lenders with its secrecy and high-handedness. “Bramalea has learned from O&Y,” says Tuchmaier, “and attempted to be as cooperative as possible.”

Still, following Olympia & York's collapse, “the banks are significantly more conservative and careful,” Marshall says. That attitude only boosts the odds against Bramalea. Marshall still is optimistic about Bramalea's chances, but he's in rapidly dwindling company.

By William C. Symonds
in Toronto, with Gloria Lau
in Los Angeles



SMILE, YOU'RE ON COMPACT DISK

Are CDs the key to photography's future? Kodak is crossing its fingers

Bill Smith, owner of a small Boston photo lab, slips a gold-colored compact disk out of its case and inserts it into a black machine. Within seconds, a color photo of Boston Red Sox pitcher Roger Clemens pops up on the nearby TV. Clemens is in midpitch, frozen just as the ball is leaving his hand. Fingering his remote control, Smith zooms in on Clemens' arm. The colors remain luminescent, the resolution good. "This," says Smith, "is the future of photography."

The folks at Eastman Kodak Co. surely hope so. After months of sneak previews to pros such as Smith, Kodak's much-ballyhooed Photo CD system will hit retailers' shelves in early August, rolled out simultaneously in North America, Europe, and Japan. For \$350 to \$500, photo enthusiasts will be able to buy a special CD player that will display snapshots on TV or a high-resolution personal computer. Despite the cost, Peter M. Palermo, general manager of Kodak's consumer imaging division, says: "We think it's going to be a big item for Christmas."

Kodak has a lot riding on Photo CD, which is just part of a broader push by the Rochester (N.Y.) company to revitalize and protect its core photo business. After years of solid growth, U.S. sales of amateur film stagnated in 1990 and 1991. Growth in international sales also slowed markedly. Some analysts blame the popularity of camcorders; others, the economy.

LOOMING THREAT. Worse, Kodak has been losing market share to cheaper private-label films, and archival Fuji Photo Film USA Inc. is making inroads among more affluent customers. Profits at Kodak's imaging division, which contributes more than half its earnings, have been disappointing (chart). In the short run, Photo CD probably won't give Kodak the boost it needs. Analysts predict it will take years for consumers to warm up to the technology. And while Photo CD has plenty of commercial applications, there are several competing technologies that could limit its growth.

Looming on the horizon is an even bigger threat: electronic photography.

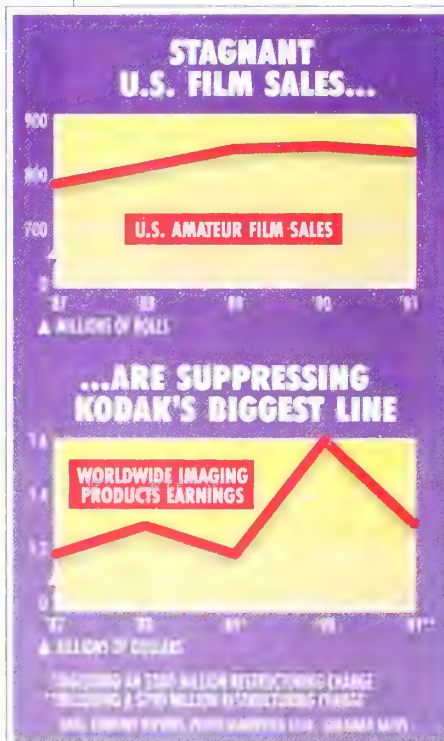
Computerized cameras, such as the \$900 Mavica from Sony Corp., already can capture images in digital form. So far, the fuzzy pictures they produce aren't a match for conventional photos. But electronic cameras could eventually close the quality and cost gap, admits Kodak. That would devastate the market for film, paper, and photo-processing chemicals—the heart of the company.

To some on Wall Street, it's a picture worth a thousand weary words—or at

so it might later be manipulated, stored, and transmitted with relative ease. "We've changed the rules of the game," says Stephen S. Stepnes, general manager of the Photo CD project.

EASIER TIME. But will anybody buy? The price of the Photo CD player—which can also play audio CDs—is just the beginning. A photographer must take a roll of film for ordinary developing, pay an additional \$20 or more to have those pictures scanned onto a Kodak Photo CD. "To me, it's simply a fancy way of looking at slides," says Paul D'Andrea, president of Mystic Color Lab Inc., a photo order photo finisher. D'Andrea says he will wait before ordering one of the \$100 Photo CD workstations Kodak is sending to labs. Analysts estimate fewer than 100,000 labs will buy the machine this year.

Kodak may have an easier time with commercial applications. Photo



THE SYSTEM WILL HIT SHELVES IN EARLY AUGUST

least two: mature industry. "This is not a high-growth business and never will be again," says B. Alex Henderson at Prudential Securities Inc. To fight slow growth, the company has upped its huge advertising and promotional budget by more than 30% since 1990. "This industry needs to be reignited," says Kodak's Palermo. "That takes investment." One sign the strategy is working: Kodak's imaging sales for the second quarter, reported July 28, were up 8%.

Photo CD is Kodak's weapon against all-electronic photography. It's a hybrid system, allowing photographers to capture images on ordinary film. Then, a photo finisher could "digitize" the image

which hold more than 100 images each and can be used in a standard CD-ROM drive attached to a personal computer, making it cheap and easy to use. Images in everything from hospital records to desktop publishing. "We're very interested in this," says Dr. Greenstein, director of the Bettman Archive, a New York City photo library with more than 16 million images.

Next year, Kodak will spend a quarter of its ad budget on Photo CD alone. If that doesn't give sluggish film sales the much-needed boost, Kodak may be wondering if a fancy slide projector is really the wave of the future.

By Mark Maremont in Rochester.

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STRATEGIES

ROYAL IS HAVING A DEVIL OF A TIME

Earnings are way off. Wall Street is disillusioned. Investors are livid

Red-hot growth in sales and earnings has been as much a trademark of Royal Appliance Manufacturing Co. as the crimson-colored Dirt Devil Hand-Vac that thrust the company into the appliance industry spotlight. Royal's net income grew 225% from 1989 to 1990, while sales shot up 90%. No wonder investors snapped up \$101 million worth of Royal's stock last August, in one of the year's most successful initial public offerings. Six months later, the stock, which was offered at 15½, hit its high of 31.

But the Dirt Devil may be done cleaning up. Royal's second-quarter earnings, released on July 23, limped in 78% below year-ago levels. Stunned, Wall Street quickly pulled the plug on the Cleveland company, dumping 8 million shares and sending the price plummeting to 8¼. What's more, at least five class actions were filed in U.S. District Court in Cleveland by Royal shareholders.irate investors charge that Royal CEO John A. Balch had glossed over the company's pending results.

NO CREDIBILITY. Wall Street won't be warming up to the stock anytime soon. Sales for the first half of 1992 grew 46%, yet that rate was well below analysts' projections. "They've lost all credibility," gripes analyst Lisa A. Broadbridge. Her firm, Smith Barney, Harris Upham & Co., underwrote Royal's IPO. Now, she's advising investors to unload the stock.

Ironically, many of Royal's troubles can be traced to the very strategy that turned the company into a marketing success: megaspending on national advertising. From the time he acquired the company in a 1981 leveraged buyout, Balch has spent heavily to make Dirt Devil a brand name sought after by consumers. Thanks to TV and print ads starring Balch, the Dirt Devil has kept grabbing sales in the portable-vacuum market, leaving Black & Decker Corp.'s DustBuster scrambling.

With retail heavyweights Wal-Mart Stores Inc. and Kmart Corp. carrying his products, Balch aimed to boost sales by expanding the Dirt Devil line. In August, 1990, Royal rolled out the first of its uprights for \$139 each. Even critics commend Balch for carving a profitable niche in the upright market and broaden-

ing Royal's product line. Hoover Co., with its 37% share, still dominates the industry. But sales of Dirt Devil Uprights swelled to \$13 million in the second quarter, pushing Royal's share to 7%, compared with 2% in 1990.

In March, Balch introduced

a second upright for \$99. But the lower-priced machine cannibalized sales of the higher-margin model. "I don't understand it, and neither did a lot of retailers," says a competitor. Still, Balch plans to roll out a \$59 upright this year.

The expansion watered down Royal's margins just as the company's upward sales momentum lost steam in the second quarter. Gross margins fell to 34% of sales, compared with 40% a year earlier. Another earnings drag: The company has opened two new assembly shops this



DIRT DEVIL: ADVERTISING IS VACUUMING UP MEGABUCKS

year. To support the new models, Balch spent a full \$31.6 million in advertising during the first half of 1992, up from \$15 million during the same period last year. "It looks like the company tried to spend their way out of weak sales, but it didn't work," says Broadbridge. "It misled the Street."

Balch declined an interview, saying only that he tried to be as honest as possible with investors about current earnings.

The poor performance may force Balch to abandon his aggressive ad spending plans.

"I believe they cut back in advertising, when they do, their sales will fall," predicts Jeffrey M. Bye, director of cleaning-products marketing at Black & Decker Inc. If that happens, Balch will be left with a mess that even the Dirt Devil can't handle.

By Maria Mallory in Pittsburgh

ENTREPRENEURS

ERIC MILLER IS NO SODA JERK

How he scotched Klan rumors and turned Brooklyn Bottling around

Sometimes the business world throws a curve so surprising, you never saw it coming. That's what happened to Eric Miller, owner of Brooklyn Bottling Corp. Last year, Miller began selling Tropical Fantasy, a line of low-priced sodas, in New York's ethnic neighborhoods. Sales of the fruit-flavored sodas reached \$2 million a month. Then someone started a rumor that the soda was made by the Ku Klux Klan to sterilize black men. Miller watched in horror as sales plummeted 70%.

Yet thanks to Miller's quick reactions and shrewd strategy, Tropical Fantasy is rebounding. Today, Miller distributes beyond New York, sales of his "gourmet" sodas are up, and he has big plans for a slew of ethnic sodas. Says Miller: "We wound up winning that battle."

How did he do it? Miller sent his employees to black neighborhoods armed with "truth flyers" to dispel the rumor. Next, he got the New York City Health Dept. to declare the soda safe. Says New York City Councilwoman Priscilla Wooten: "This was just a move to discredit a rising business." Miller even persuaded New York City Mayor David Dinkins to drink the soda in public.



MILLER TARGETS ETHNIC MARKETS: "WE TAKE UP THE SPACES THAT THE BIG GUYS LEFT"

Miller, 34, never did find out who started the rumor. Some pointed fingers at soda giants Coca-Cola Co. and PepsiCo, but they both deny any responsibility. Thanks to the countercampaign, Tropical Fantasy brought in \$3 million this June, up from \$600,000 when rumors were rife. Tropical Fantasy is also selling in California and the Midwest.

FAMILY TRADITION. Miller's \$41 million outfit also makes Best Health, a line of natural sodas, iced teas, and juices. Best Health stems from a family tradition. Miller's grandfather sold the brand for 25 years ago. Miller took over

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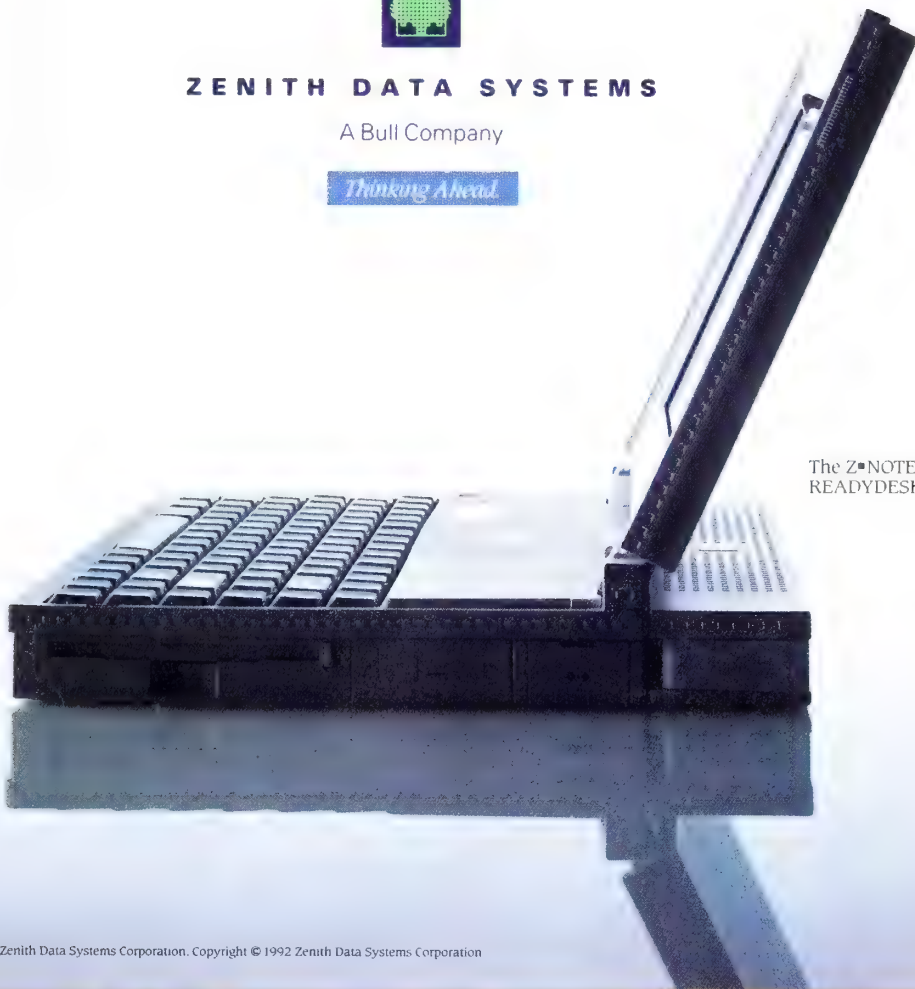
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Top of the News

business in 1988, added new flavors, and dubbed the seltzers "gourmet sodas."

Miller expects Best Health sales to hit \$20 million this year. "Sales have increased 1,000% since we started distributing the soda two years ago," says Mike Spalluto of Gourmet Beverage Distributors, a New Jersey-based independent. But Carl Gilman, vice-president for sales and marketing at Snapple Natural

Beverage Co. in Valley Stream, N.Y., dismisses Best Health as a copycat: "They're very similar to us."

As a licensee for Desnoes & Geddes, Jamaica's top soda company, Miller is targeting immigrants such as Madge Warren, who moved to Queens, N.Y., from Jamaica. "Its fruity taste reminds me of home," she says. And he's bottling the Postobon label for Colombians

who pine for Manzana, an apple-flavored drink. "Latin Americans recognize it immediately," says Ruy Lopez, a New York and Connecticut distributor.

It all adds up to a nimble, avoid-the-giants strategy. Says Miller: "We take up the spaces that the big guys leave out." After last summer's beaning, Miller can be glad he's still in the game.

By Nicole Harris in New York

INDUSTRIES

BUGS, WEEDS, AND FINE WINE

Nonchemical farming comes to California's vineyards

The image adorns countless postcards, wine labels—even fine art: graceful vines heavy with grapes rising up out of clean plots of soil dotting California's wine country. But these days, some of those vineyards are looking a little shabby. Between the rows, the earth is overgrown with tangled plants and grasses.

Are recession-stung growers cutting back on maintenance? Just the opposite. The presence of nongrape "cover crops" in the vineyards is the most visible sign of a phenomenon sweeping the wine business: Growers are turning to organic farming methods to limit and ultimately eliminate their use of pesticides, herbicides, and other chemicals.

SPRAY BAN. Why are winemakers going organic? Partly, they're concerned about the environment. But they're also being pushed hard. Every year, it seems, another chemical spray is banned. And in July, a federal Court of Appeals in San Francisco ordered the Environmental Protection Agency to remove from the market any potentially cancer-causing pesticides that leave residues in foods.

Having read the grape leaves, some of California's biggest wineries, including Fetzer Vineyards, Buena Vista, Callaway, Sutter Home Winery, and even giant E & J Gallo Winery, are embracing so-called sustainable farming techniques. Once the domain of small wineries, organically farmed wine will see its first high-profile rollout in September, when Fetzer launches organic versions of its red and white Calpella wines for under \$10 retail. "They could bring organic wines into the mainstream," predicts Ronn Wiegand, a Napa Valley wine expert.

Established winemakers see a big advantage to organic farming:



FETZER'S DOLAN: ORGANIC FARMING IS GOOD FOR BOTH THE LAND AND WINE QUALITY

higher-quality yields. Fetzer President Paul Dolan says that years of dousing a single crop with chemicals has depleted the soil of nutrients. Organic farming, he predicts, will help restore the soil, leading to more good grapes per acre.

The key to organic growing is "biodiversity," which allows natural systems to keep the ecology in balance. This often requires planting cover crops, such as grasses, mustard, and peas. These crops add nutrients, choke out weeds, and offer a cozy home to ladybugs and other predators of destructive insects.

LOUSED UP. The drawback is that such techniques are far more labor-intensive than blasting through with a sprayer. As a result, estimates Lee Hudson of Hudson Vineyards in Napa, it costs \$150 to \$200 an acre annually to manage a grape crop using sustainable practices, vs. only about \$65 with chemicals. That helps explain why most organic wines now cost 30% more than comparable

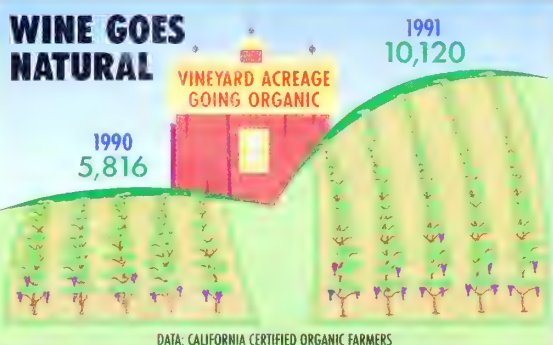
nonorganics. That's daunting to growers already battling a deadly infestation of the phylloxera louse.

Ironically, some producers who switching don't plan to advertise the change. Giant Gallo is shifting to sustainable growing on most of the roughly 8,000 acres it owns. But, says spokesman Dan Solomon, "we have no plan to put this on the label." Many wineries worry that they will be subject to new regulation if they label their wines organic. And they could be prevented from using chemicals during a sudden infestation or other emergency.

The other big question: Will organically grown wines make a hit with consumers? Retailers and restaurateurs say there isn't much demand now. Most consumers associate organic wines with previous vintages that didn't add preservatives and tended to spoil easily. Fetzer says it will use some preservatives in organic wines to avoid such problems.

Alec Brough, director of wine sales at Manhattan's Window on the World restaurant, believes consumers will be reassured by more respected vineyards shifting to organic farming. "Fetzer will make sure the wine's [consistent] from year to year." As pressure builds to limit the use of chemicals, organic farming will also help other wineries.

By Joan O'C. Hamilton in Napa Valley, Calif.





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EDITED BY HARRIS COLLINGWOOD

CASH FOR ART'S SAKE

Business giving to the arts will fall nearly 2% in 1992, according to the Business Committee for the Arts. Here's what 419 arts-organization directors cite as some big challenges in soliciting corporate donations. Respondents, who could give more than one answer, say business:

Does not understand the benefits of arts sponsorship **62%**

Is interested only in projects that will draw big crowds **55**

Wants a large return for a small contribution **54**

Wants quantifiable results that aren't always available **27**

Wants more lead time than the organization can provide **26**

DATA: BUSINESS COMMITTEE FOR THE ARTS

THE SKIES ARE ABUZZ, AGAIN

► There's never a dull moment in the airline business. Despite the airlines' best efforts to nudge prices up, sluggish demand for the fall season has triggered another fare war. Trying to avoid even steeper cuts, Delta Air Lines was set to announce on July 30 that it will slash advance-purchase fares by 30% until Dec. 14.

And dealmania is again sweeping the industry. With the ink hardly dry on British Airways' proposal to invest \$750 million for a 44% stake in USAir, rumors are flying that BA and USAir will soon offer up to \$500 million for Trans World Airlines, which is operating under Chapter 11 protection. That could spark a bidding war in bankruptcy court. And industry insiders are buzzing about the possibility that Air Canada, with financial backing from the Fort Worth-based Bass Brothers,

will try to acquire Continental Airlines. Houston entrepreneur Charles Hurwitz has already offered \$350 million for the ailing carrier, but only \$25 million of the purchase price is equity.

Air Canada also entered merger talks with the country's other major carrier, Canadian Airlines International, after American Airlines dropped plans to buy a stake in that airline. But many believe an all-Canada combination would do little to strengthen the carriers for increasingly crucial international competition, and Canadian's stock fell sharply on concern over its finances.

DISPLACED WORKERS WIN A BIG ONE

► As many as 1,500 workers who lost their jobs when American Home Products shuttered a plant in Indiana will share a \$24 million settlement reached on July 29 between AHP and the Oil, Chemical & Atomic Workers International Union (OCAW). The union filed suit for \$1.1 billion, claiming that AHP improperly won tax benefits for moving work to Puerto Rico.

The settlement, which awaits final approval, sets aside as much as \$10.5 million for workers and former workers in Elkhart, Ind., and three other downsized plants. The rest will cover fees and expenses,

AND NO STICKBALL OUT HERE, EITHER!

It's getting to be a regular thing outside Boston's Fenway Park, home of the Red Sox. You try to make a buck, you get nailed by the police. In 1989, city officials tried to kick sausage vendors off the streets in front of Fenway, citing complaints from nearby businesses. Now, the city's target is Michael Rutstein, who hawks an alternative game program outside Fenway for \$1, half the price of official programs. "Their scorecard is small, and it's too hard to write on," Rutstein says of the competition. He sold only 20,000 of his programs in 1989, first year, but by this year's All-Star break he'd sold 70,000, wonder the city, following a complaint by the BoSox, charging him with the crime of operating without a license.

Rutstein is ready to fight back. He says he can't afford an attorney, but a local lawyer will defend him *pro bono*. His philanthropic barrister: his mother, Susan.



penses, including up to \$2 million for the OCAW and up to \$8 million for lawyers, led by Philadelphia attorney Allan Kanner.

NAVISTAR WANTS TO RETIRE HEALTH COSTS

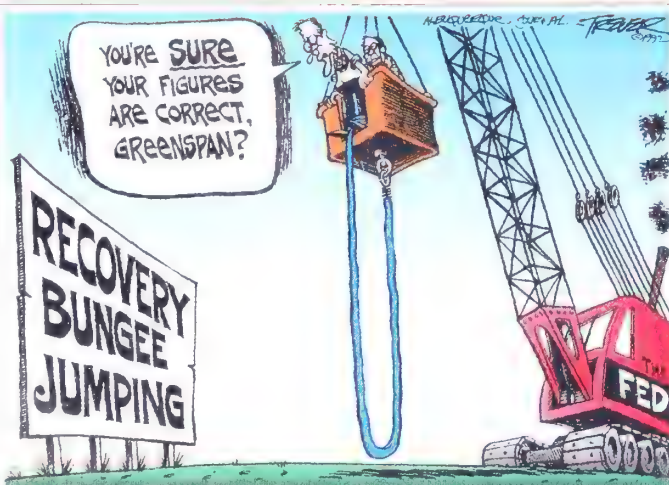
► Heavy-duty truck manufacturer Navistar, claiming its long-term survival is at stake, asked a federal court on July 28 for permission to cut health care benefits for 63,000 retirees and dependents. The company, which has three retirees for every active worker, last year paid \$126 million for retiree health care. Navistar

says its retiree health benefits currently put it at a \$200 million cost disadvantage to its rivals. The new plan, which forces former employees to pay for part of their health care, would slash costs by 71% to \$90 million.

But the plan may not pass over smoothly. Navistar's retirees are covered by United Auto Workers and other unions, which are likely to oppose efforts to transfer costs to their members.

MINE WORKERS SAVED BY THE BILL

► After months of political maneuvering and arm-twisting, Senator Jay Rockefeller (D-W. Va.) finally persuaded his fellow lawmakers to cue the nearly depleted United Mine Workers of America retirement funds. Unveiled July 29, Rockefeller's bill safeguards current and future health benefits for the nation's 118,000 retired miners and their dependents. It's expected to clear the House and Senate easily. The new accord will force companies to cover retirees themselves, stopped insuring. Annual interest of \$70 million from federal trust funds will help pay retiree medical bills.



THE FIRST SALVOS OF A TRADE WAR —BETWEEN BUSH AND THE DEMS

Up till now, trade policy has not figured prominently in the increasingly heated duel between President Bush and Democratic challenger Bill Clinton. But that's changing fast. Spurred by a widening trade imbalance with Japan and growing voter anxiety over job security, the Democrats have opened a coordinated assault on the Bush Administration's management of international trade. The upshot: further delay in approval of a new U.S.-Mexico free-trade agreement, and pressure for a harsher U.S. trade stance toward Japan next year.

The tough new line was signaled on July 7, when House Majority Leader Richard A. Gephardt (D-Mo.) said it would be "unthinkable" to approve any U.S.-Mexico pact without guaranteed controls on cross-border pollution, assurances that Mexican workers weren't being exploited, and provisions for retraining U.S. workers displaced by competition from Mexico. A year ago, Congress gave the White House blanket authority to negotiate a free-trade accord with Mexico and Canada, promising a simple up or down vote—no amendments allowed.

SECOND THOUGHTS. But on the same day Gephardt fired his shot, a barnstorming Clinton got off one of his own: He'll support an agreement with Mexico only if "it provides adequate protection for workers, farmers, and the environment on both sides of the border." The Bush Administration has accelerated the pace of trade talks with the government of Mexican President Carlos Salinas de Gortari in hopes of wrapping up a deal quickly. The aim: to trumpet the completion of a vote-getting U.S.-Mexico trade accord in California and Texas in time to make a difference in the Nov. 3 election.

But former Administration trade allies, including Senate trade subcommittee Chairman Max S. Baucus (D-Mont.), are cooling on the idea. Baucus says he has "serious qualms about

the apparent rush," adding that the haste may be "dictated... by American electoral politics." Democratic second thoughts on the free-trade talks will complicate the job of U.S. Trade Representative Carla A. Hills. "It doesn't help to have negotiations in a political year or in a down economic climate," she concedes.

The White House is also under growing pressure on another front: late-starting Democratic attempts to enact new legislation to stiffen sanctions against unfair trade practices. To show that Democrats can out-muscle Bush on trade, Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) has agreed to move a major trade bill onto the floor. Its provisions—aimed mainly at Japan—would force Hills to identify nations that discriminate against U.S. exports and take actions to help pry open their markets. "Maybe it's time we put a little more weight into Ambassador Hills's crowbar," jibed Bentsen at a hearing on the bill.

Because it focuses on opening foreign markets rather than protecting domestic ones, Bentsen's bill is considerably more moderate than a punitive measure passed by the House. And because it is far more subtle than the hammer-and-tongs House approach, the Bentsen bill will be harder for Bush to veto. It will soon be taken up by the full Senate, where Democrats are eager to pillory Bush's trade record. Senate Majority Leader George J. Mitchell (D-Me.) recently said Bentsen's bill is a top Democratic priority.

A year ago, President Bush's handling of foreign affairs was the one thing GOP campaign strategists thought he wouldn't have to worry about in the reelection campaign. But with their orchestrated blitz, Bill Clinton and his allies on Capitol Hill hope to turn Bush's trade policies into one more stumbling block in his bid to remain in the White House.

By Paul Magnusson



BENTSEN: A BILL AIMED AT JAPAN

CAPITAL WRAPUP

TRADE

Six former Soviet republics, including Russia and Ukraine, probably thought they were doing Washington a favor by selling it uranium at a steep discount. But U.S. uranium miners, processors, and their unions didn't think so. Their dumping complaint forced the Commerce Dept. to require the six to post bonds of 116% of the sales price of the reactor fuel, pending a final ruling. The former republics have said they want to clear the matter up by negotiating a price increase with the Commerce Dept. before the final ruling is issued in mid-October. But it won't be easy. "They don't have a very good un-

derstanding of our legal processes yet," notes a Commerce official.

POLITICS

Bill Clinton isn't the only Democrat with a hefty lead in the polls. Surveys suggest the Democrats may be able to widen their 57-to-43 edge in the Senate by as many as six seats. In California, Representative Barbara Boxer and former San Francisco Mayor Dianne Feinstein seem headed for victory. So does Carol Moseley Braun in Illinois. Meantime, GOP incumbents in New York and Pennsylvania trail their challengers. And once-vulnerable incumbents Terry Sanford (D-N.C.) and Wyche Fowler Jr. (D-Ga.) seem secure.

ENVIRONMENT

The Bush campaign calls Senator Al Gore (D-Tenn.) "an international environmental extremist." But the League of Conservation Voters, a liberal environmental group, has a different view: According to the league's rankings, the Democratic Vice-Presidential nominee slipped from a 1990 score of 95 out of 100 down to just 73 in 1991, based on 15 environmental votes the Senate took that year. In 1991, Gore ranked behind 26 other senators. Gore's drop resulted from such moves as his vote against a mining reform bill and his opposition to a plan to remove unsightly billboards.

MESSAGING:

21st Century Electronic Commerce

INTEGRATED MESSAGING NETWORKS SPUR TRADE

Where will your business be in the year 2001? One certainty is that by the 21st century, global electronic messaging will be a vital part of your day-to-day operations. Already, the very nature of commerce is changing as a wide range of industries send and receive messages electronically over networks that span the planet. Like 18th century explorers searching for faster trade routes, today's globally dispersed businesses are pursuing more efficient ways to swap voice, text, and image in the form of data. And they are finding that whether it is between business branches, customers, or suppliers, messaging provides the competitive advantage that they seek: improved customer service and satisfaction.

Public networks offering an extensive number of messaging products now play a primary role in sending or receiving vital business information. Millions of worldwide subscribers to these powerful networks share information with trading partners, bringing them all closer together and, in the process, redefining modern transactions. They collaborate around the world using a large variety of electronic messag-

ing tools — decreasing decision times from days to minutes, from hours to seconds.

SHORTENING THE WORK PROCESS

Messaging is not only a new technology, but a new work process as well. Experts say that despite the doubling of investment in personal productivity tools in the '80s, American industry saw virtually no increased productivity. Unbelievably, according to one well known research firm, Datapro, it still takes a hundredfold the time to process the sales, financial, manufacturing, and service paperwork that it actually

takes to physically build a piece of machinery or even to decide whether to approve an insurance policy — all because of the unconnected work processes associated with them.

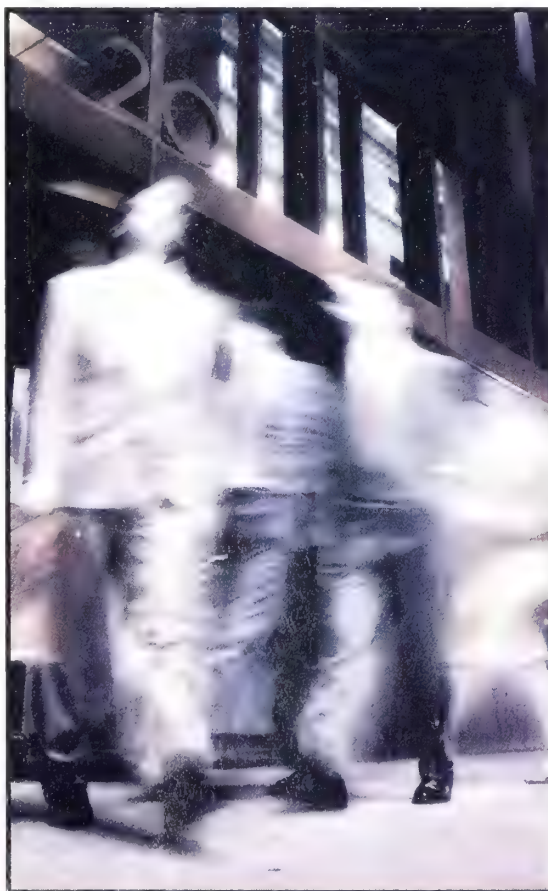
Public messaging networks facilitate the unification of an enterprise's functional islands, eliminating the redundant handling of data. This reduces the potential for error and integrates a variety of reliable electronic media into critical business processes. Users increase the efficiency of their operations and the level of their customers' satisfaction resulting in significant competitive advantages.

STREAMLINING TRAVEL

SABRE Travel Information Network is a successful example of electronic commerce at work. An operating division of American Airlines that serves travel agencies covering 14,000 locations in the U.S. and another 1,700 in Canada, SABRE expects fax use by their clients to triple in 1992 from the previous year. "Transferring faxes over an integrated messaging network is a productivity tool for our clients to use with their customers," says Jan Altemeier, Managing Director for Product Marketing. "Our travel agent clients stay right at their workstations while sending a travel itinerary, for example. There is no need to stand in line at a fax machine or redial busy numbers — the agent just press a button and go about their business. There is no waiting or worry. Safe delivery is guaranteed by immediate confirmation."

WHEN DISASTER STRIKES

In 1991 alone the American Red Cross was on the scene of more than 55,000 disasters, including earthquakes, floods, fires, tornadoes, hurricanes, and chemical spills. In times of such calamities, the Red Cross has been there, providing



ood, shelter, and comfort. Rapid, reliable communication is essential in keeping the public informed as to where they can seek help and information from the Red Cross concerning the safety of their loved ones directly affected by the disaster. To do this, the Red Cross relies heavily on electronic mail, facsimile, and whatever else it takes to speed their services to people in need.

"When catastrophe strikes, we don't want to worry about how the information is going to get through, only that it does," says Don Jones, General Manager of Red Cross Disaster Services. "Our chapters need to know the location and scope of the disaster. Trained volunteers from across the country must be mobilized along with emergency response vehicles, relief supplies, and other resources — all in real time. It's critical to victims depending on us."

EXCHANGING DOCUMENTS

The simple transmittal of machine-readable data between the computers of trading partners

allows businesses to realize substantial cost savings. For DDMS, a systems house that provides EDI software to local office supply dealers, transaction automation is one of the fastest-growing applications of electronic messaging. "It is a win-win situation because both the office supply dealers and their customers save money," says Bill Froeba, DDMS Vice President of Marketing. "Electronic messaging drops the \$75-\$100 cost for our clients to collect orders from their customers and deliver orders to their suppliers to between \$5 and \$10 by saving on extra clerical and paper processing expenses." Even for those suppliers who themselves do

not yet have EDI, the public messaging network comes to the rescue. The dealer can send an EDI message which is delivered to the customer as a fax message; by doing so, the office supply dealer records remain in electronic form and the message arrives clearly and legibly. As Bill points out, "Both the dealer and the customer send and receive vital information about their businesses, save money, and have a longer relationship."

Douglas Waugh, European Communications Manager for Black & Decker, also claims that EDI strengthens relationships between his company and its suppliers by making it easier to do business. In Europe alone, Black & Decker is using EDI with over 70 companies. And, as Douglas says, "The use of an

integrated public messaging network gives us the benefit of sending a single purchase order form to all suppliers regardless of the supplier's country — even if our form differs considerably from that of the supplier. We also found unexpected benefits such as improvements in procedures and information quality and accuracy."

TRANSFERRING FUNDS

A telex user, National Community Bank of New Jersey, relies on the global connectivity and security of telex for its international transactions of letters of credit, money transfers, foreign exchange, and collection. As their Vice Presi-

dent, John Ahearn, says, "The public messaging network helps automate what were once unconnected work processes. When we receive transaction instructions from a customer, we immediately initiate the transaction, send a telex message to one of our correspondent banks, and fax a copy to our customer over the messaging network. The customer is informed that the transaction is completed, and the bank is

secure in knowing that a telex message is accepted around the world."

AT&T EASYLINK SERVICES

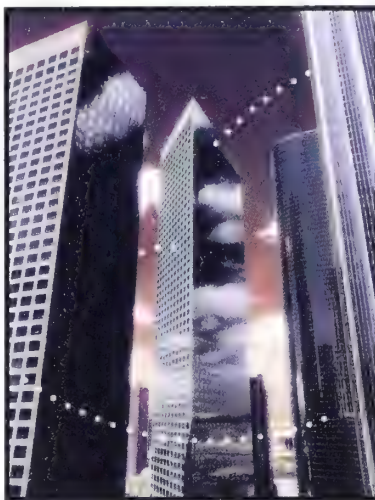
These AT&T EasyLink Services customers recognize that inter-enterprise communications now require the same capabilities afforded to intra-enterprise messaging users. In today's environment, their competitive edge depends on the strengthening of relationships not only within but outside of the company.

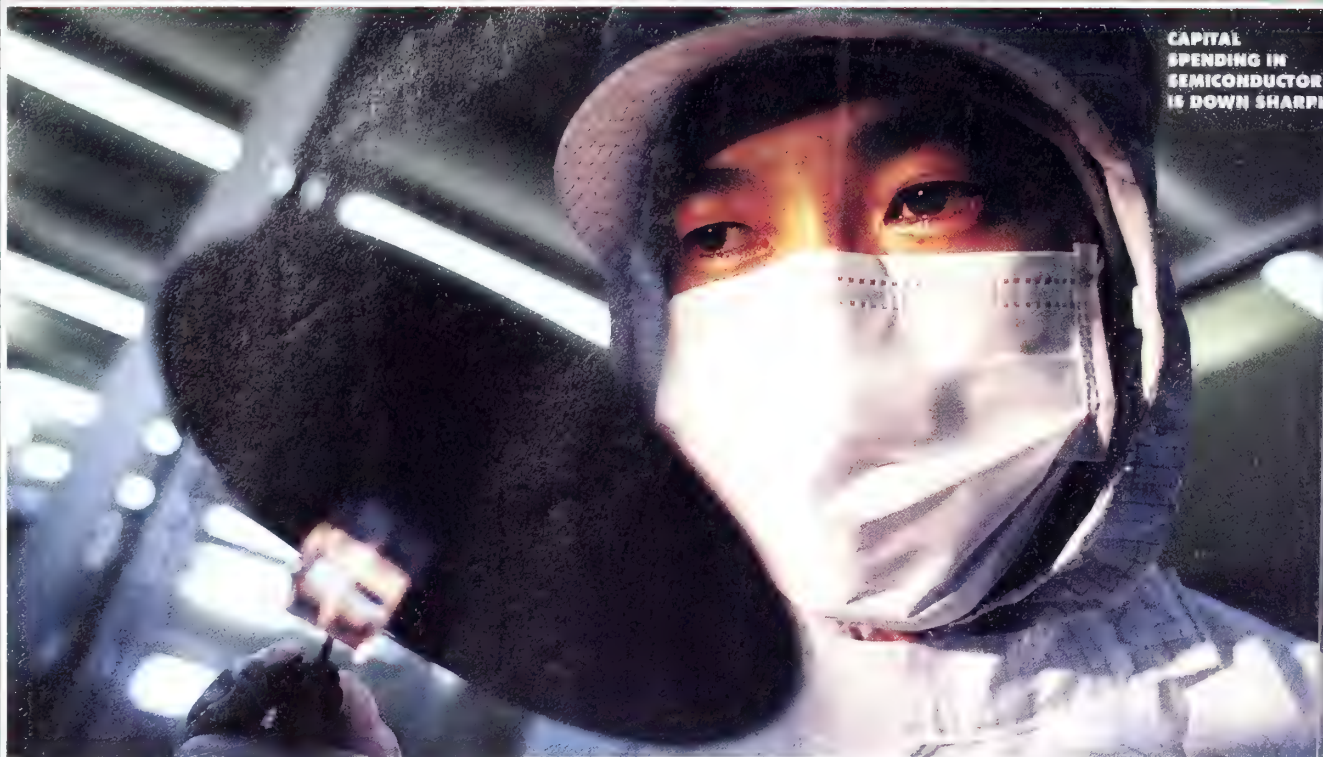
AT&T EasyLink Services provides electronic messaging to and from 160+ countries with sales and support people in more than two dozen of them. Our customers rely on AT&T EasyLink Services' international presence and robust array of messaging products and services, including E-mail, facsimile services, telex, EDI, and information services, to help them strengthen critical business relationships.



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CAPITAL SPENDING IN SEMICONDUCTORS IS DOWN SHARPLY

JAPAN

JAPAN'S RISING ANXIETY

Will measures to right the economy be too little, too late?

On the island of Kyushu in southern Japan, dozens of multi-jointed robots twirl, bend, and bow as they turn out Pulsars at Nissan Motor Co.'s latest high-tech assembly line. But with domestic auto sales in the pits, the robotic ballet is proceeding in slow motion. Opened in June, the plant is producing just 166 cars a day, or 25% of its capacity. Nissan fears it may take as long as a year before the plant is running at full speed.

It's not only the auto-building robots that are slowing to a crawl this summer. The shock wave of Tokyo's 31-month-long stock market collapse is spreading to the real economy, and hundreds of plants are suddenly suffering the same fate. As inventories mount, profits skid, and consumer and business spending stalls, bureaucrats are back-

pedaling on assertions that the economy would rebound by fall and achieve 3.5% growth for the fiscal year ending in March. "They thought they could manage a soft landing," says chief economist Peter Morgan of Merrill Lynch Japan. "That doesn't look possible."

Morgan is among a rising number of analysts who think the economy will grow only 1.1% this year (charts). Faced

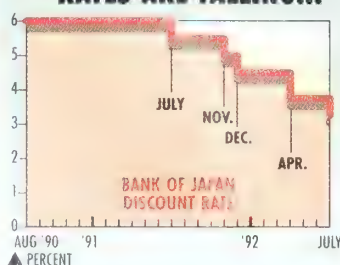
with such predictions, policymakers are acknowledging that they must move head off even greater damage. On July 24, Prime Minister Kiichi Miyazawa announced his government would launch some \$50 billion in public-works spending by mid-September, a month earlier than planned. And Bank of Japan Governor Yasushi Mieno cut the discount rate by half a percentage point, to 3.25%. As one central banker says: "We didn't realize the depth of the pessimism."

PUNY GAINS. According to many economists, the bureaucrats still don't. Cautious moves overcautious, the critics say, that Miyazawa's package actually amounts to \$28 billion in new funding with the remainder coming out of borrowings already allocated for other purposes. At best, estimates Masaru Takemura of Fuji Bank Ltd.'s research arm, the plan will add just 0.8% to economic growth over the coming year, hardly enough to pull Japan out of its slump.

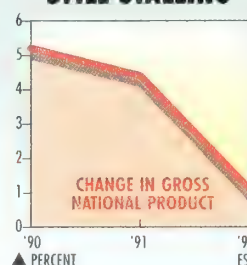
Many executives also complain that with inflation near zero and interest rates too high. That's why analysts think the Japanese will be forced to boost public spending and slash the discount rate again.

The prospect of job loss may spur such action. Some companies are already cutting back on part-time work to reduce costs. With semiconductor makers' capital spending

JAPAN'S INTEREST RATES ARE FALLING...



...BUT THE ECONOMY'S STILL STALLING



DATA: BANK OF JAPAN, MERRILL LYNCH & CO.

ne expected to fall 30% this year, analysts think even full-time workers may face layoffs. To avoid jeopardizing sacred job security of salaried workers at major companies, says a senior Finance Ministry aide, "we'll take any assurances." Many high-ranking businessmen want such measures now. Nissan chairman Yutaka Kume, for one, is calling for an income-tax cut to spur consumer spending. "Revitalizing the Japanese economy," agrees Toyota Motor Corp. President Shoichiro Toyoda, "is an absolute necessity."

THE FUNK. With Japan's annual trade surplus expected to mushroom to some \$10 billion this year and next, as demand for imported goods languishes, the Bush Administration is also pressing Yawazawa to step on the gas to remove assurance from the world economy. But conservative Finance bureaucrats continue to prefer a measured pace, ending steadfastly against tax cuts. With unemployment at 2.1% and employment still posting more jobs than there are applicants, policymakers fear too much stimulus will rekindle the inflation and financial excesses of the 1980s.

Still, the bureaucratic mood is changing. A few days before the latest economic maneuvers, Mieno for the first time voiced concerns over the financial system's ill-being. He also acknowledged that the economy was weaker than he expected. Rattled by Germany's count-rate hike and by the lowest Japanese money-growth rate in 15 years, the Nikkei stock average responded to Mieno's expressions of anxiety by plunging to a six-year low of 15,541. Yawazawa's and Mieno's actions have done nothing to turn stocks around. Machine-tool orders down 45% in '92 and big electronics makers' profits now expected to fall more than 20% in the current fiscal year, traders and executives alike are in a blue funk. "The Japanese government's economic policy is not very good," complains Japan Federation of Employers' Associations President Takeshi Nagano. "That's having a psychological impact."

To be sure, Japan will stay highly competitive for a long while. Over the past five years, manufacturers have poured nearly \$3 trillion into factories that are the envy of the world. To protect those investments now that the economy is stalling, notes senior economist Kenneth S. Curtis of Deutsche Bank Capital Markets (Asia) Ltd., "companies are slimming down to their rock-bottom competitive core." But in so doing, they may only be accelerating the country's slide. The robots of Kyushu may be giving to an even slower beat before bureaucrats finally decide to act.

By Karen Lowry Miller in Tokyo

FRANCE

HOW LONG CAN DASSAULT KEEP FLYING SOLO?

France wants the Mirage-builder to merge with Aerospatiale

For most of the postwar era, Dassault Aviation has been the proud emblem of French defense prowess. Its Mirage fighters have patrolled the skies from Argentina to Iraq—and once made France the world's third-biggest arms exporter. But arms markets are shrinking, and so is Dassault. It hasn't made an export sale in six years.

Now, the French government is mulling plans to keep this feisty, family-run company aloft—but in ways that may not please Dassault. For starters, the government is likely to let the company sell \$10 billion worth of Mirages to Taiwan, a customer France and the West have avoided, fearing a back-

ing the Euro-fighter too costly, wants France to join in a cheaper project. Worried about defense costs, France might go for a scaled-down Euro-Rafale.

All this could keep Dassault's factories humming. But it would be a very different company from the maverick outfit that founder Marcel Dassault saw nationalized twice and each time rebuilt from scratch. Since Marcel's 1986 death, his son, Serge, has run the company with equal crustiness. Merging Dassault with Aerospatiale "makes a lot of sense," says Aerospatiale's new chairman, Louis Gallois. The drawback, he says: "Serge Dassault doesn't want to."

Dassault, 67, may have little choice. His company is surviving on a trickle of French Air Force orders that can't carry it until Rafale deliveries start, in 1997 or later. It's still in the black, but profits fell 53% last year, to \$20 million on sales of \$2.8 billion, and analysts expect red ink next year.

Some observers blame Serge Dassault for the company's fall. Since 1986, country after country has picked U.S. fighters over the Mirage. A former Dassault executive claims the company hasn't paid enough attention to sales. Serge Dassault declined to be interviewed.

In theory, the government already controls Dassault. It owns 45% of the company's stock plus 55% of the voting rights. Still, Serge Dassault has managed to guide company policy.

One ace up his sleeve is Pierre Guillaud de Benouville, a close friend of Mitterrand and a Dassault director.

But the June appointment of Gallois to head Aerospatiale is a bad omen for Serge Dassault, many feel. Gallois successfully restructured SNECMA, the state-owned aircraft-engine builder. He is close to another key French defense executive, Chairman Alain Gomez of Thomson. Together, they may try to restructure the French defense industry. Chances are that Dassault will once again lose its independence. But this time, it may be permanent.

By Stewart Toy in Paris, with John Templeman in Bonn



lash from Beijing. In exchange, observers think Paris may pressure Dassault to accept a longtime government goal: merger with Aerospatiale, the state-owned builder of missiles, helicopters, and Airbus airliners. That would shore up the French defense industry as it passes through a brutal global shakeout.

EURO-FIGHTER. Moreover, the government may drag go-it-alone Dassault into a pan-European project to replace the "European fighter aircraft" that Britain, Germany, Italy, and Spain began developing in 1985. Dassault has stubbornly refused to join, preferring to concentrate on developing the Mirage's successor, the Rafale fighter. But Germany, believ-



TAIWAN

MAINLAND FEVER HITS THE ISLAND

Taiwan is rushing to make deals and exploit a vast market

For Charles Huang, a director of the Taipei Computer Assn., the future of Taiwan's computer industry lies in a swamp in suburban Shanghai. His group hopes to turn the one-square-mile plot into an industrial park for Taiwanese computer manufacturers. It also hopes to use bargain-priced programmers from the mainland to help develop software, giving Taiwan the technical edge it needs to compete with other Asian giants. "It will be no problem for us to overtake South Korea," says Huang. "And, gradually, we'll become competitive with Japan and the U.S."

Or take C. Y. Kao, CEO of Taiwanese food company President Enterprises. Going after the world's biggest market for food—China's 1.2 billion people—Kao's company has four factories open or under construction, producing instant noodles and tomato paste on the mainland. It plans even more investment.

'GREATER CHINA.' Call it mainland fever. After four decades of bitter relations, more Taiwanese companies are looking to the mainland for new trade and investment. Until recently, most ventures were small, low-key, and limited to a few industries, such as shoes and toys, aiming to exploit China's cheap labor.

But Taiwan is crossing a new threshold. The list of Taiwanese executives eyeing mainland deals now includes the

electronics, automobile, and airline industries. They are laying plans to exploit China as a new market—not simply as cheap labor. A Taiwanese business group puts total investment in China at nearly \$6 billion with growth of about 20% yearly. Despite official animosity between the countries, Beijing is eager to win such investments when they generate exports, bring in new technology, or produce goods needed in China.

Taiwan's emergence as a regional trade center is generating talk of a "Greater China," linking Taiwan, Hong Kong, and the mainland's booming coastal provinces, which are bustling hives of capitalism. Some even see the new entity blooming into a new regional trade and manufacturing bloc that could rival Japan and Korea. Microsoft Corp., the U.S. software maker, has renamed its Taipei office the "Greater China Office." That's because it expects the region to grow very quickly and Taiwan to

Electronics, auto, and airline companies from Taiwan are now joining the small, low-key enterprises already in China

play a leading role, says Richard Fade, director of Microsoft's Far East sales.

Taiwan's government forced off the mainland by Mao's Communists in 1949 has been loath to boost economic ties. It has feared becoming dependent on China and therefore subject to political pressure from Beijing. In recent years, the number of Taiwanese industries allowed to invest in China has been limited by a Taipei rule that requires the money to be funneled through a third country, such as Hong Kong.

But Taiwan companies are lobbying hard—with some success—for change. On July 16, Taiwan's legislature passed a bill to ease trade relations with China, including direct transportation links perhaps as early as next year.

Some Taiwanese companies are waiting for the policy changes. While Taipei still forbids high-tech investment in China, many of the island's computer makers are ignoring the laws and finding mainland co-production partners. They skirt the law by acting as clearinghouses for trade and technology transfer. For example, the Taipei Hsien Computer Assn. will act as matchmaker between Taiwanese and Chinese computer makers and open Taiwanese showrooms in Beijing and Shanghai to promote sales of the island's products.

FORTUNE SEEKERS. Many Taiwanese entrepreneurs see China as a modern Wild West, where quick fortunes can be easily made. Chiu Chung-jen, general manager of the Da Yih construction company in southern Taiwan, is negotiating a joint venture with a Chinese construction group to build a new business center in a promising area in eastern Shanghai. "In Shanghai, you have a chance to become a Chinese Rockefeller," says the 33-year-old Chiu, who bought a \$100,000 condominium there.

Just how far Taipei goes in unleashing its business leaders will depend on a tough fight within the Kuomintang, the ruling political party. Party hardliners are now battling with more liberal factions that favor closer links to China.

Intraparty squabbling, for example, has delayed until September a decision on whether to allow indirect investment on the mainland by department stores, restaurants, and hotels. Longer-term, however, the determination of Taiwanese business to cut deals on the mainland seems sure to overcome even the most stubborn party politicians.

By Bruce Einhorn in Taipei, with Lynn Curry in Beijing

THE NEW EUROPE'S FRONT-RUNNER STUMBLES

The flaming arrow that lit the huge Olympic torch in Barcelona was a fitting symbol for Spain's own rise as the new Europe's hottest economy. But now, it looks as if the Olympics and the Expo '92 world's fair in Seville this summer may mark the high point of Spain's glory. That's because the country's drive toward Europe's front ranks is sputtering.

After the athletes fly off to other climes, Prime Minister Felipe González' Socialist government will face its sternest test since it took over in 1982—curbing rising inflation and soaring

budget deficits as hot growth cools. The huge boost from González' bringing Spain into the European Community in 1986 is finally wearing off. Spain's 5% economic growth and attractiveness to foreign investors have long been the envy of its European partners. But this year, the economy will probably expand less than 2%—not enough to keep sky-high 17% unemployment from rising.

The deteriorating economy could shake some of the luster off González' golden reputation and knock Spain off course from becoming a key player in the emerging new Europe. González, who has reshaped Spain in his own authoritarian image, is facing parliamentary elections, which he must call by the fall of 1993. While

only one-third of Spanish voters now approve of González' performance, analysts do not think he is in danger of being toppled. Still, the socialists could lose their absolute majority and be left at free hand. "I can't see any way the government is going to turn around the economic trend in time for elections," says a Madrid economist.

Growing pessimism about European economic union is compounding González' problems. Perhaps more than any of its European partners, Spain is economically dependent on European integration. The reason: Spain's hopes of persuading investors that its economy is solid have rested on last year's

Maastricht Treaty, which forces European leaders to bring budget deficits, inflation, and interest rates in line. González has used the EC targets to beat down union demands for higher wages.

So when Danish voters rejected the treaty in June, it was bad news for Spain. In the ensuing weeks, falling investor confidence has pushed up interest rates, sunk the Madrid bourse to 13% below its 1991 yearend level, and put downward pressure on the peseta. Investors also know Spain could lose at

least \$11 billion in EC assistance over five years if the treaty is not ratified.

FRESH PASTURES. Already, Spain's wages, now rising at a 7.5% rate, are making Spanish investments less attractive and exports less competitive. German auto makers and Japanese electronics companies that have favored Spain in recent years are shifting investments elsewhere.

Responding to inflation worries, González is trying to tighten fiscal policy. But González is in a bind because he has already helped drive up inflation to the 6.5% range by spending an enormous \$4 billion on the Olympics and Expo. Businessmen are adding to the pressure. Former governor of the Bank

of Spain José María López de Letona, argues that "Spain has to act quickly" to avoid getting out of step with Europe.

The prime minister's austerity program calls for higher withholding and value-added taxes and lower government spending. But it is not clear whether he will be able to stay the course. Already, the unions, whose support is key, are sniping at him and threatening a general strike in October, when a grand celebration of the 500th anniversary of Christopher Columbus' discovery of America is planned. The idea is to focus tourists' and investors' attention on Spain. But they may not come away with the image González intends.

By Bill Javetski in Paris, with Harry Debelius in Madrid



AFTER THE OLYMPICS, ANOTHER FINE MESS?

GLOBAL WRAPUP

GERMANY

A fight is brewing between German auto maker BMW and its union over plans to invest \$400 million in a U.S. plant. During a recent trip to the proposed Spartanburg (S.C.) site, BMW chief Executive Eberhard von Kuenheim swore to keep organized labor out. But Germany's powerful, 4 million-member IG Metall union now says it will help the United Auto Workers organize the luxury carmaker's planned South Carolina factory.

Von Kuenheim, however, is eager to maintain the one-third cost advantage he stands to reap by producing in the U.S. by employing young, largely

nonunionized workers and is likely to hang tough.

BRITAIN

One of Europe's crown jewel companies, British Aerospace PLC, is in danger of crashing and burning. BAE is expected to announce big asset sales, \$1 billion write-downs, layoffs, and a dividend cut when it releases first-half results in September. The corporate-jet division, satellite-communications subsidiary, and commuter-aircraft business could all go on the block. BAE will not comment on asset sales, but industry analysts say these businesses are now being shopped around, and getting only lukewarm responses. That, to-

gether with expected losses in the first six months, knocked the stock price to \$4 a share, down from \$12 a year ago. The company lost \$250 million in 1991.

BAE has been hurt by a downturn in defense business, particularly the disarray in the European fighter project. The company's efforts to diversify away from defense into commercial real estate and autos, through purchase of Rover Group Holdings PLC in 1988, have been disastrous. BAE's hopes for recovery rest on defense orders from Saudi Arabia and other wealthy Third World buyers. Taiwan recently expressed interest in a 40% stake in the commercial-aircraft business.



VEDA DOWNS: "JUSTICE DIDN'T DO THEIR DUTY. I'M AFRAID IT WILL HAPPEN AGAIN"

SOFT ON 'GREEN' CRIME?

Democrats say the Justice Dept. is backing off ecology cases

On the afternoon of May 12, 1987, Jack and Veda C. Downs went to feed the cattle on their farm in Pasco, Wash. As they cut twine off some hay bales, their senses were assailed by a stench that smelled like "a skunk and rotten eggs combined," recalls 73-year-old Veda Downs. By midnight, the Downsens could hardly breathe. Soon, nearly two dozen of their neighbors came down with headaches and other ailments. A year later, at age 71, Jack Downs died of a heart attack.

A four-year probe by state and federal officials determined that the odors stemmed from a toxic brew of pesticides that PureGro Co., a West Sacramento (Calif.) agricultural chemicals maker, was dumping on a field next to the Downs's property. A federal grand jury in 1990 indicted the company and four executives on five felony counts and one misdemeanor offense involving the illegal dumping of toxic wastes.

But last year, the Justice Dept. dropped the felony charges and let PureGro plead guilty to one misdemeanor and pay a \$15,000 penalty. That didn't clear the air in Pasco. "Justice didn't do

their duty," charges Veda Downs. "I'm afraid it will happen again."

So are some Democratic lawmakers. They're concerned that the Justice Dept. is going soft on green crime. A House Science, Space & Technology subcommittee is looking at the government's settlement with Rockwell International Corp. last March. The company paid a record \$18.5 million fine for illegally dumping waste at the Rocky Flats nuclear-weapons plant in Golden, Colo.—but cleanup costs are estimated at \$200 billion. And the House Oversight & Investigations subcommittee, headed by Representative John D. Dingell (D-Mich.), plans to hold hearings in September on Justice's environmental record.

There's more to the controversy than

**Rockwell was fined
\$18.5 million for nuclear
dumping in Colorado. The
cleanup tab: \$200 billion**

partisan wrangling. For one thing, Bush Administration's own Environmental Protection Agency is among Attorney General William P. Barr's critics. A lawyer at the EPA in Washington drafted a list of 20 cases whose handling raises questions about the Justice Dept.'s aggressiveness. Some Republican officials outside Washington, such as Washington State Attorney General Ken Eikenberry, are complaining, too.

Justice is perplexed by the charges. Roger B. Clegg, acting assistant attorney general for the Environment & Natural Resources Div., notes that in the most recent fiscal year, his agency returned 125 indictments, resulting in guilty pleas or convictions, figures that have been fairly stable for the past several years. And so far this year, the department has notched a \$250 million settlement against Exxon Corp. for the Valdez spill and a \$6.5 million penalty against Chevron Corp. for illegal waste disposal off the California coast.

'FRUSTRATING.' Critics, though, remain troubled by the PureGro case. Investigators learned from PureGro workers that for five years, the Unocal Corp. unit had disposed of leftover pesticides in an old tank in Pasco—without keeping records of what was dumped. To avoid classifying the chemicals as hazardous waste, PureGro in May, 1987, sprayed them in a Pasco cornfield it had leased. Soon after, 23 neighbors in addition to the Downsens complained of ailments ranging from headaches to heart problems.

In 1989, state prosecutors referred the case to the Justice Dept., because federal law carries stiffer sanctions than state laws. Before the indictment, PureGro offered to plead guilty to one misdemeanor. Robert H. Whalley, the company attorney, said the company wanted to settle the matter and protect employees.

The federal prosecutors refused. Nine days later a grand jury returned another count indictment against PureGro and four employees. But in the spring of 1991, over the vigorous objections of senior EPA officials, the Justice Dept. settled the case. Senior Justice officials said that linking the chemicals to the illness in Pasco proved too difficult.

In a letter to Barr, Eikenberry cited the episode "frustrating and unresolving." And Democrats on Capitol Hill are looking for more such cases in Justice Dept. files. They plan to air their findings in the fall, just as voters start to firm up their choice for President. But it could take some of the edge off GOP assaults on the Clinton-Gore tie to "environmental extremism."

By Catherine Yang in Washington

If you're looking
for a notebook
computer that's
easy to use,
there are basically
only two ways
you can go.

The hard way.



Extra memory, \$210. Most notebook computers in use today simply won't just magically make Windows 3.1 practical. And many that are just made to that require extra memory which can add hundreds of dollars to their price tags.



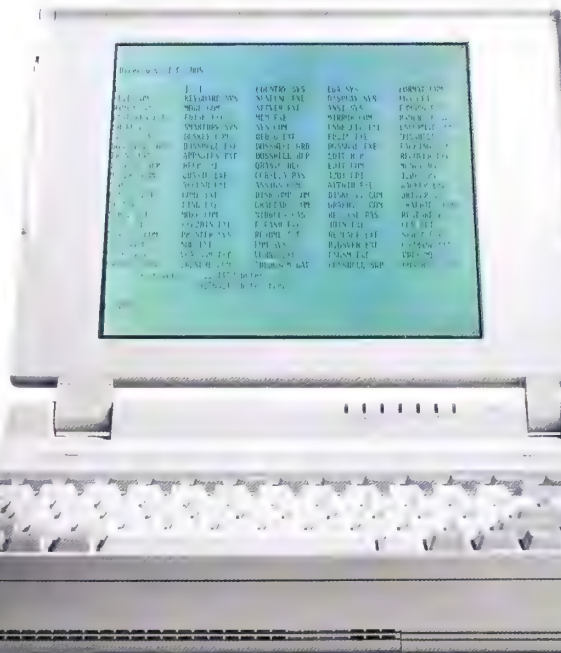
Clip-on trackball, \$172. If you're going to try to use Windows 3.1 on many portable computers, you may have to plug this in and clip it onto the side of your computer. (Be careful not to catch the cord in your airplane tray.)



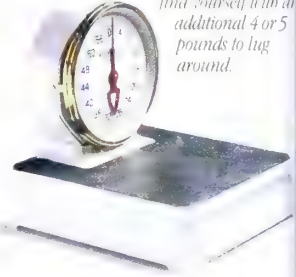
New programs, \$506 each. Unless you buy programs specifically designed for Windows 3.1, you'll have to use conventional character-based programs and their awkward commands.

Fax/data modem, \$142.

The ability to communicate on the road is what makes a notebook PC really valuable. So you'll have to pack one of these. Once you get back to the office, be prepared to shell out another \$138 to update the files on your desktop PC, and over \$500 just to access network file servers and printers.



Added weight. Many notebook computers may claim to weigh less than 7 pounds, but by the time you add all the components you need to make Windows 3.1 work well, you're likely to find yourself with an additional 4 or 5 pounds to lug around.



Your time, name your price. Fiddling around with MS-DOS or Windows 3.1 on the road can cost you plenty of time. How much is yours worth?

Ordinary notebook, \$2,497. The typical notebook computer of today was designed to run DOS only, not Windows 3.1. It doesn't have enough memory, speed or screen brightness, and its screen isn't fast enough for high-quality graphical computing.

Comfort is something most notebook computer ads never talk about. Because, truth is, they're not very comfortable to use. Which means, I can't explain why they don't arm upwards for better use. And the PowerBook, of course, has won more design awards than all other notebook computers combined.



The coach seat factor. If you want to run Windows 3.1 on most portable computers you'll find that you need a front-mounted keyboard and a side-mounted trackball or mouse. What you won't find is enough room on an airplane tray to hold it all.



Instruction manual, 2 pounds. There's nothing like forgetting a DOS command when you're 2,000 miles from home, so you may want to carry a manual with you. And since Windows 3.1 is based on DOS, you'll definitely want instructions handy.

The Apple Macintosh PowerBook is the only personal computer to make the Products of the Year lists of *Business Week*, *Fortune*, and *InfoWorld*. And the only notebook computer to be named one of the Best Designed Products of the Year by *Time*. Because it's the only computer designed a

The easy way.

Consistent applications. Every PowerBook runs thousands of Macintosh programs (including Lotus 1-2-3 and WordPerfect) that all work in the same consistent intuitive way. You learn once, you know the basics of all of them.

Blistering speed. Because Macintosh computers are optimized for graphical computing, PowerBook can significantly outperform comparably priced notebook computers running Windows.** Both the PowerBook 170 and the new PowerBook 145 deliver an impressive combination of speed and power at an affordable price.

Built-in Balloon Help. Point at what you want to know about, and your Macintosh will tell you what it's for. So you can leave your manual in a desk drawer at home.

Built-in networking. Plug your PowerBook into an AppleTalk® network, and conveniently access all network resources—printers, file servers, e-mail, even other networks from Novell, IBM and Digital.

Built-in fax/data modem. With this option, you can send your work directly to a fax machine or access e-mail from almost any telephone anywhere you happen to be. Just plug the phone cord into the back of the PowerBook.

Built-in peripheral support. Like every Macintosh, PowerBook lets you add up to six external hard drives, CD-ROM drives, scanners or other peripherals simply by plugging them in.

AppleTalk Remote Access. This remarkable software comes with every Macintosh PowerBook. It not only allows you to access all the files on a modem-equipped Macintosh at your office or at home, it also gives you complete access to your network—printers, files, file servers, e-mail—from anywhere there's a phone.

Built-in file sharing. On most notebook computers, sharing information with a desktop computer is virtually impossible. But every PowerBook has powerful file sharing built in. So you can easily connect your PowerBook to a desktop Mac® or another PowerBook and copy files from one computer to the other.

Palm rests. Working on the road isn't like working at your desk. So Apple designers provided a place to rest your hands, making it much easier and more comfortable to work in tight quarters—such as a middle seat on an airplane.

Integrated trackball. Everything about Macintosh computers is designed to make it easy for you to work. In the case of PowerBook, the pointing device is integrated into the computer. There's nothing to hook up or clip on. Open it up and you're ready to go. (It's comfortable whether you're left- or right-handed, too.)

It's compatible. Like every Macintosh, PowerBook is compatible with the personal computers you use at the office. It can read from and write to floppy disks from MS-DOS or OS/2 PCs, or even run DOS software using programs such as SoftPC.

ally integrated system. Combining hardware, software and industrial design to make working on the road as comfortable as working at your desk. It's more intelligent. It's more convenient. It's power anyone can use, anywhere you happen to be. The power to be your best.



How to connect to a network file server.

The hard way:

1. Purchase an external network adapter.
2. Install the network adapter.
3. Connect the network cable.
4. Plug in AC power supply if needed.
5. Install network software and configure parameters.
6. Start Windows.
7. Run Windows Setup to load network software.
8. Restart.
9. Start Windows.
10. Start File Manager.
11. Select the desired file server.

The easy way:

1. Connect the network cable.
2. Open Chooser.
3. Select AppleTalk "Active" button.
4. Select desired file server.

How to retrieve a deleted file.

The hard way:

1. Purchase a utility program.
2. Install it on your computer.
3. Restart the computer.
4. Start Windows.
5. Start the utility program.
6. Start the unerase feature.
7. Find the directory where your file existed.
8. Click on that directory.
9. Select the deleted file.
10. Choose unerase command.

The easy way:

1. Double-click on the trash can.
2. Drag the deleted file out of the trash can.

How to rename a directory.

The hard way:

1. Double-click on the Main group in Program Manager.
2. Start File Manager.
3. Highlight the directory you want to rename.
4. Select "Rename" from the file menu.
5. Type in a new name for the directory (must be 8 characters or less).
6. Go to Program Manager if needed.
7. For each application in the renamed directory, select "Properties" from the file menu.
8. For each application in that directory, change the command line to reflect the new path to the application program.

The easy way:

1. Highlight the directory (folder) you want to rename.
2. Type a new name (up to 31 characters).

How to add an external hard disk drive.

The hard way:

1. Purchase a parallel-to-SCSI adapter.
2. Connect it to the parallel port.
3. Plug the drive into the adapter.
4. Insert the adapter's installation disk in drive A:.
5. Select drive A:.
6. Type "INSTALL".
7. Select appropriate options for your drive.
8. Select appropriate drive for software installation.
9. Restart.
10. Run installation test program.

The easy way:

1. Plug the drive into the SCSI port.
2. Start up the PowerBook.

How to play a sound.

The hard way:

1. Purchase a sound upgrade kit.
2. Attach sound upgrade hardware.
3. Install sound upgrade's software drivers.
4. Start the sound recorder program.
5. Select Open from the file menu.
6. Select the sound file you want to play.
7. Choose OK.
8. Click on the Play button.

The easy way:

1. Double-click on the sound's icon.

How to add a pointing device.

The hard way:

1. Purchase a pointing device (such as a mouse or trackball).
2. Open notebook's back panel.
3. Attach appropriate port adapter to pointing device (if other than 9-pin).
4. Connect pointing device to proper port.
5. Choose appropriate clamp arms.
6. Attach pointing device to clamp arms and adjust tilt angle.
7. Start the computer.
8. Install driver software.
9. Restart.

The easy way:

1. The trackball is built in.

Macintosh. The more you do, the easier it gets. 

every store or mall to show samples of a new product and its ads, or just explain the product idea. A few weeks later, they call consumers for their reaction to any samples. Researchers then massage their findings into historical data on a new product's market to get a computer-generated sales projection. "We get within 20% of actual sales 80% of the time," says Steve Wilcox, president of BASES Group, a researcher in Covington, Ky. "It approaches the accuracy of regular tests—provided marketers don't fiddle with the variables and muck up the findings," says Allan Baldinger, marketing research director at the Advertising Research Foundation. Pretests often take only three months and may cost \$250,000, or a fourth as much as a traditional test, says Joel Rubinson of ERF Group, a Port Washington (N.Y.) researcher. Lever USA, for one, relies almost entirely on pretests.

DO IT. Research firms are now trying to improve their computerized products to grab more dollars from budget-minded marketers. NPD Group has a test program designed for drugs go-

ing from prescription-only sales to over-the-counter. An Atlanta company, Allison/Hollander Inc., is working on a software program one might call "virtual shopping": A consumer at a monitor uses a joystick to cruise down a grocery aisle, scan products, and "pick" anything up to examine pricing and labeling before deciding to buy.

Armed with pretesting results, some marketers are trying a sort of rolling rollout. Instead of testing in just one or two cities, they launch their product in perhaps 25% of the country. Scanner data available within days can give a fix on how the product is doing in real life,

SKIPPING THE TEST

Some alternatives to the traditional 12- to 18-month market test:

PRETESTING Show a few consumers samples of new products along with ads to gauge probable response

COMPUTER MODELING Use historical data on similar products to turn small samples of data into sales projections

ROLLING THE DICE Introduce a new product region by region, fixing ads and promotions along the way to going national

FOREIGN FLING The lead country concept calls for trying out a product in an overseas market, then rolling it out globally

not just in pretest. In addition, the product is sold in a market too large for rivals to distort. Within a year or two, the new product hits all 50 states. That's how General Mills rolls out such products as its Multi-Grain Cheerios. "You just do it," says Alice Sylvester, senior vice-president for media research at J. Walter Thompson Co. "You just go out and find out what happens."

As consumer-goods markets become more global—and often, more alike—some companies find that a few countries can serve as a test market for a continent or even the world. That's the thinking behind Colgate-Palmolive Co.'s "lead country" strategy. The company launches or tests a product in several countries, then follows through globally. Late last year, after some pretesting, Colgate launched its new Palmolive Optims shampoo and conditioner in the Philippines, Australia, Mexico, and Hong Kong. Now, the product is being rapidly rolled out in Europe, Asia, Latin America, and Africa.

So have the new methods made the dicey business of launching new products any safer? "The speed of testing has improved, but failure is still an issue very much on product managers' minds," says Dipak Jain, associate professor of marketing at Northwestern University's J. L. Kellogg Graduate School of Management. No wonder. Estimates of new products' failure rate vary hugely, but that rate could be anywhere from 66% to almost 90%. In a 1991 survey by Weston (Conn.) researcher Group EFO Ltd., marketers expected 86% of their new products to fail, up from 80% in 1984.

COMEBACK TIME? Some marketers even think classic test marketing may make a modest comeback. It's one thing to skip testing when you're spinning existing products into line extensions, such as Camel Wides. But if companies really want to attract more consumers, the argument goes, they'll have to introduce completely different products. And truly new products will need thorough testing.

There are signs of a new interest in testing. For example, BehaviorScan, an Information Resources Inc. division that recruits consumers and grocers to run tightly controlled tests in eight towns, reported a 17% increase in sales for the first quarter. And marketers point to Lever's experience with its Lever 2000, a combination deodorant and moisturizer soap. The brand became one of the biggest new-product successes in recent memory. But it did so only after spending two years in tryout in Atlanta—Lever's only major test in the last decade.

By Christopher Power in New York



THE GLOBAL ECONOMY

You'll have to excuse the McAmis family of Greeneville, Tenn., if they cringe at talk of free trade. After 12 years of assembling Magnavox TVs at a North American Philips Corp. plant, Allen McAmis was laid off in February and his \$13-an-hour job moved to Juarez, Mexico, where it pays \$2 an hour. He was recalled in June to fill in for workers on sick leave. But Allen and his wife, Sherry, who also works at the plant, fear that Philips will move more jobs south. The couple have cut out birthday gifts and allowances for their children, Christina and Brian, and survey the future with dread. If Allen loses his job again and "I get laid off, too, we'll be a welfare family," Sherry says.

Ever since the British economist David Ricardo advanced the theory of comparative advantage in 1817, conventional economic wisdom has held that the benefits of dropping trade barriers—lower prices and higher growth—outweigh the loss of jobs and pay that some workers suffer in the process. Most analysts have held to this view as global competition soared in the 1980s and the U.S. negotiated a free-trade pact with Canada and contemplated one with Mexico. But now, a flurry of studies by disparate economists—everyone from middle-of-the-road academics to ardent defenders of Reaganomics—are finding that the tradeoff isn't nearly that simple.

SERVICE SURPLUS. These analyses still call growing trade a net plus. But they also pinpoint more precisely than ever who gets hurt, and the scope of their findings is sobering. In the 1980s, the first and worst hit by global trade were factory workers whose companies competed with foreign rivals. As these people were laid off or suffered wage cuts, they created a glut of job candidates that helped hold down pay among the 64 million workers, across a wide spectrum of industries, who never went beyond high school. Only the college-educated did well. These 54 million Americans, blessed with high skills and fortified by the fact that new technologies boosted demand for the work they do, were insulated both from foreign competition and the struggles of the less educated.

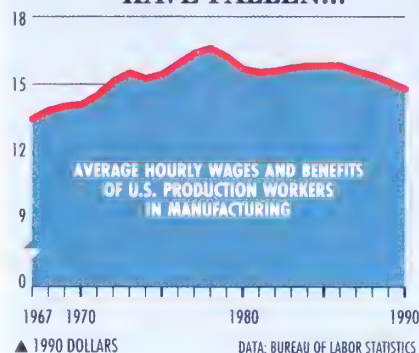
These trends sound familiar, but their broadest implication is news: The increase in trade bears much of the blame

HOW TRADE AFFECTS WAGES...

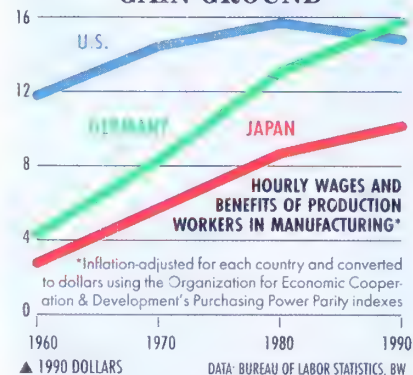
AS THE U.S. ECONOMY RELIES MORE ON TRADE...



...REAL FACTORY WAGES HAVE FALLEN...



...WHILE FOREIGN WAGES GAIN GROUND



*Inflation-adjusted for each country and converted to dollars using the Organization for Economic Cooperation & Development's Purchasing Power Parity indexes



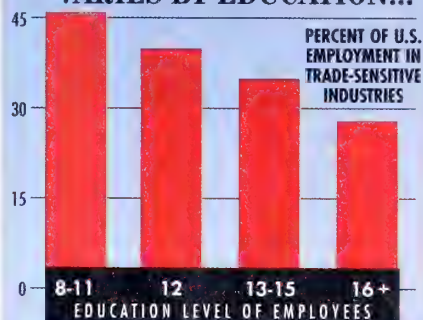
WHO GETS HURT

FREE TRADE IS A NET PLUS — BUT NOT FOR EVERYONE



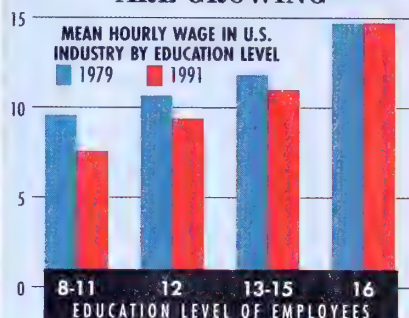
...AND FUELS INCOME INEQUALITY

SINCE TRADE'S IMPACT VARIES BY EDUCATION...



▲ PERCENT DATA: WORKERS AND THEIR WAGES, MARVIN H. KOSTERS, EDITOR

...WAGE DISPARITIES ARE GROWING



▲ 1991 DOLLARS

DATA: ECONOMIC POLICY INSTITUTE

◀ FIRST AND WORST HIT

The North American Free Trade Agreement will mean more U.S. exports to Mexico, but that could include low-skill jobs like those of Magnavox factory workers Allen and Sherry McAmis



for an unprecedented surge in income inequality between the most- and least-educated halves of the U.S. work force. To cite the extremes, the real wages of high school dropouts have fallen by up to 20% since 1979, while real incomes of employees with more than four years of college have grown by 8%, according to the Economic Policy Institute, a liberal think tank in Washington, D.C. Marvin H. Kusters, an ardent free-trade advocate and director of economic policy studies at the conservative American Enterprise Institute, has just edited a book called *Workers and Their Wages*, which tries to explain the new inequality. It results, he says, from the potent combination of "trade and technology."

What makes this conclusion especially unsettling is that trade is bound to pick up. U.S. and Mexican negotiators are close to reaching a North American Free Trade Agreement that will phase out many trade barriers between the two. This will no doubt create U.S. jobs as exports to Mexico increase—but will also send more lower-skilled ones south. Meanwhile, the seven major industrial countries are trying to expand the 108-nation General Agreement on Tariffs & Trade (GATT), which will leave labor-intensive industries such as textiles more vulnerable to foreign rivals. And countries such as Malaysia and China are rapidly boosting exports. All this "will have a dramatic impact on lower-skilled workers in the U.S.," predicts Edward E. Leamer, a trade economist at the University of California at Los Angeles.

CLASS WARFARE? The impact will reach much further than that. Declining pay for the bottom half may not slow U.S. growth, since average incomes should rise as the top half does better. But widening inequality poses other prob-

▲ LEVI STRAUSS

Teams of workers are doing higher-skilled tasks, such as eliminating bottlenecks and setting up the line

lems. The poverty rate could stay up. The tab for welfare and unemployment could mount, inflating taxes. Ultimately, resentment of the wealthy could reach a boiling point, leading to ferocious attacks on executive pay and even to more riots like last May's in Los Angeles. "One possibility is for us to become a class society like those in Latin America," which have unequal distributions of wealth and chronically unstable governments, says Richard B. Freeman, an economist at Harvard University. "That's the direction we're headed."

This will be a potent issue in the Presidential campaign, where Democratic

candidate Bill Clinton is attacking the Reagan-Bush legacy of wage stagnation for all but the most well off. In accepting his nomination, Clinton vowed that "American companies must act like American companies again—exporting products, not jobs." On July 27, meanwhile, House Majority Leader Richard A. Gephardt (D-Mo.) called for a tax on companies that move to Mexico to fund training for workers who are left behind. At the Republican convention on Aug. 17, President Bush is likely to blame the Democratic Congress for failing to enact his plan for growth—cuts in spending and taxes.

Neither candidate embraces protectionism, and other strategies would work. For one, Corporate America could compete globally by adopting a high-skills strategy. Rather than push pay to the lowest common denominator, companies such as Deere, Ford, and Motorola are training workers to improve their skills, boost productivity—and keep jobs at home. If most companies did likewise, the ranks of the less skilled would shrink, easing the glut of them. To hasten this trend, Washington could spend more on education and training, for example, or curtail immigration of low-skilled workers.

For the moment, however, Washington seems unwilling to act. And for every Motorola or Ford, a trendsetter such as AT&T is turning high-paying jobs into low-wage ones. Even those that upgrade worker skills, such as Ford Motor Co. and General Electric Co. (page 53), still shift work to cheap-labor countries—thus pursuing both approaches.

Meanwhile, the bottom half faces another ominous trend. Service industries—banks, insurers, and retailers, among others, which employ 75% of the work-

TRADE AND INCOME: THE BOTTOM LINE

TRADE'S EFFECT ON U.S. WAGES, 1972-85

Using standard economic models, Edward E. Leamer calculated how the growth of international trade from 1972 to 1985 changed the total income of U.S. employees in 1985

NONPROFESSIONALS



PROFESSIONALS

DATA: EDWARD E. LEAMER,
UNIVERSITY OF CALIFORNIA
AT LOS ANGELES, BW

—are automating jobs and displacing lower-skilled workers. Since 1990, AT&T has dumped 21,000 positions this year. "If service productivity rises in the future, the question is how neutral this will be between educated and less educated workers," says University of Chicago economist Kevin M. Murphy. "If the gains come mostly in low-skilled jobs, the story will be the same as [for manufacturing] in the '80s."

The specter of inequality hasn't changed most economists' conviction that globalization is good. Economic theory has held for decades that as foreign countries sell more to the U.S., they use the revenue to buy U.S. exports. They also set up shops to create jobs in the U.S., as Japanese and Germans are doing. The latest example: a \$400 million BMW plant that will bring 100 jobs to Spartanburg, S.C. There are other benefits, too, such as a freer exchange of technology and managerial ideas. Historically, the net benefit of all gains in terms of jobs and growth has been difficult to quantify. Still, economists project that a new GATT deal would add 0.5% a year to world GDP growth, and that free trade with Mexico would lift output in both countries and create tens of thousands of new U.S. jobs.

FREE TRADE. There's at least some proof, however, of the link between trade and inequality. Wolfgang F. Stolper and Paul A. Samuelson, the father of neoclassical economics, first expressed the concept in 1941, with elegant calculations that built on Ricardo's comparative advantage theory. If goods trade freely, the idea goes, prices will equalize, and so will production costs. To compete, countries must specialize where they have a comparative edge. Low-wage countries will make labor-intensive goods, while those with capital will do better in technology-intensive products. Thus, U.S. low-skilled work should flow overseas, or wages of low-skilled workers must fall. This didn't happen for much of this century, largely because trade—the sum of exports and imports—was less than 1% of U.S. gross domestic product. In the past 20 years, as that figure grew to 10%, imports began to displace low-skilled workers or depress their wages in industries such as textiles, auto parts, and electronics. But the U.S. wage gap didn't widen: The baby boomers, plus an influx of working women, produced a surplus of college-educated employees, which kept their incomes from rising faster than those of the less educated. These forces reversed in the 1980s.

The rush of college graduates eased, reflecting the baby bust and the slowdown of women entering the work force. New technology investment, spurred in part by foreign competition, swelled demand for college grads such as engineers and technicians, so their pay rose. Meanwhile, 350,000 less skilled immigrants entered the U.S. each year, and soaring imports eliminated factory jobs. Soon, "workers displaced by trade were competing in service industries," says Harvard economist Lawrence F. Katz.

American Telephone & Telegraph Co. illustrates how all this happens. Since

point. A 29-year-old electrical engineer at AT&T's Allentown (Pa.) microelectronics facility, she was hired last September to help develop software that AT&T customers use to design semiconductor chips. AT&T created Gregory's group of six engineers shortly before she signed on, then added four positions. "We're now trying to hire three more people," she says. And Gregory is back in college part-time, aiming for a masters degree.

BORDER CROSSING. Dreama B. Fields, 33, (cover photo) has had the opposite luck. She worked for nine years as an assembler and packer at an AT&T plant that made transformers and other devices in Radford, Va. Then, in 1990, after moving work to Matamoros, Mexico, for five years, AT&T shut the plant. By then, 800 of Radford's 2,100 blue-collar jobs had migrated south. Labor comprised about 50% of production costs at Radford, says Warwick. He won't give the figure in Mexico. But workers there earn an average \$2.35 an hour in wages and benefits, vs. the \$13 Fields earned.

Fields has suffered less than many of her peers because her husband, James, has a job as a state park ranger. But they have cut back so she can attend community college. They buy second-hand clothes for Audrey, 4, and often don't spend the \$10 a month for Candi, 13, to enter bowling contests. Fields hopes accounting classes will help her get work as a payroll clerk—a \$5-an-hour job in Radford. "It will be years before I get back to where I was," she says.

Even workers who still have jobs feel the fallout. From 1979 to 1989, as the sum of exported and imported goods rose from 55% of U.S. manufacturing output to 82%, the average pay and benefits of U.S. factory workers fell 6% after inflation. Meanwhile, plant productivity rose 42%. In fact, factory pay in Europe and Japan, where companies and governments train workers, gained on the U.S. average after inflation and exchange-rate adjustments. German factory compensation has passed U.S. levels for the first time in modern history.

This trend probably won't turn around soon. UCLA's Leamer recently tried to project how much free trade would cost less skilled workers in the future. To do so, he looked at how trade changed prices for goods from 1972 to 1985 in 38 labor- and capital-intensive manufacturing industries, then figured the pay effect on professional and blue-collar employees across the economy.

He found that trade raised demand



▲ PHILIPS

So far, Philips has shifted 900 jobs to Juarez. The threat of moving more enabled it to win union concessions

In 1984, it has eliminated 21,000 blue-collar manufacturing jobs in the U.S., leaving 32,000. It also has created 12,000 mostly lower-paying factory jobs elsewhere. Meanwhile, its U.S. white-collar work force has grown by 8,000, to 118,000. "We're losing low-skilled jobs overseas or to technology," says William J. Warwick, president of microelectronics manufacturing at AT&T. "I need more engineers, designers, and high-skilled technicians, but fewer people who make circuit boards."

Jacqueline A. Gregory proves his

Cover Story

for higher-skilled work, as Stolper and Samuelson predicted. So the average annual pay of 17 million professionals was 9%, or \$1,900, higher than it would have been without trade growth. But annual pay of more than 90 million other workers was \$465, or 3%, lower than it would have been otherwise. Leamer predicts that lower-skilled workers will suffer similar declines in the 1990s—and that professionals will reap similar gains—if manufacturing trade grows the 60% it did in the period he studied. “Gains from the expansion of trade will continue to be very unequally distributed,” he adds.

This may be true even if trade growth slows, as the mere threat of exporting jobs keeps pay down. In June, Philips wrung concessions from the McAmises and 1,600 colleagues who have so far survived the transfer of 900 jobs to Juarez. The International Union of Electronic Workers accepted \$1.50 an hour less for new hires than current workers get—and no benefits. These conditions will apply to 600 or more laid-off workers who may be recalled. The union consented, officials say, because Philips threatened to shift all TV production to Mexico and leave 300 distribution jobs in the U.S. Says F. Joseph Brang, the Greenville plant manager: “There is great pressure to move work to Mexico because of the low labor costs there.”

Free-trade advocates such as Massachusetts Institute of Technology economist Rudiger Dornbusch argue that the loss of lower-skilled jobs is not only inevitable in a world awash with cheap labor—but may be a blessing in disguise. If trade growth indeed spurs exports of value-added products, where the U.S. has an edge, then higher-paying jobs should spring up to replace lower-paying ones that are lost, he says.

POSITIVE STATIC. But for this to occur, most companies must try the approach taken by those such as Motorola. Today, only 44% of its 100,000 employees work in the U.S., vs. nearly 100% in 1960. Part of the shift overseas reflected a desire to manufacture in its best markets. But nearly half of the change stemmed from a search for low wages, says A. William Wiggenhorn, Motorola's vice-president for training and education. Then, in the early 1980s, Motorola reexamined itself in light of moves it was making to just-in-time inventory control, total quality management, and teamwork systems. More than cheap labor, “today, we want high quality and a short time to market,” says Wiggenhorn. “So we don’t

move employment to low-cost countries anymore.”

Take Motorola's cellular phone business. When the company started making the phones in 1983, it eliminated larger parts by putting their functions on computer chips. This required less assembly, cutting labor costs to 10% to 15% of production costs, vs. 25%-plus in previous products. The company also switched to a labor relations strategy that encourages its 3,000 cellular phone employees in Arlington Heights, Ill., to boost quality and productivity.

Last year, for instance, Lemel Lewis, who makes circuit boards for phones, joined a plantwide team formed to reduce static in the air, which causes de-

fects to eliminate bottlenecks. And they, not supervisors or engineers, decide how to set up the line.

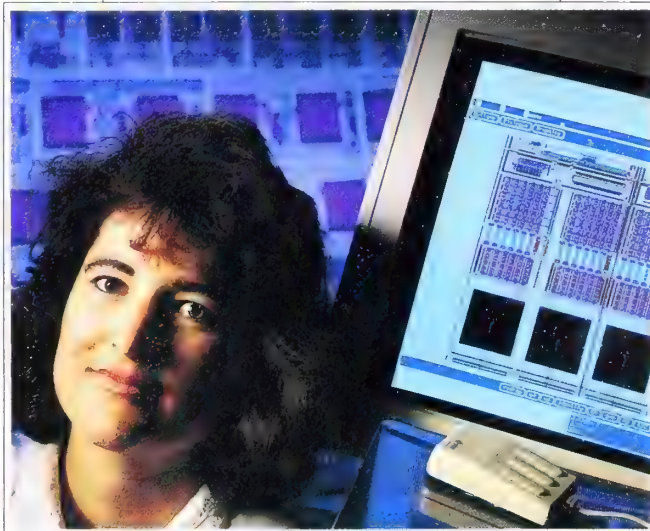
Levi Strauss & Co. just began converting its 27 U.S. plants last fall, so doesn't yet know if teams boost productivity. But other benefits are clear. Each plant now can make a bundle of 30 jeans in seven hours from start to finish instead of the six days it often took. Bundles got stuck at different stages in the old system. So a factory can rapidly switch styles and sizes to respond to consumer demand.

MORE GRADS? At Levi's 432-employee Blue Ridge (Ga.) plant, which last spring became the first to convert entirely to teams, defects fell to 1.9% of production in April, from 2.6% during the same month in 1991. “Our factories couldn't compete with overseas ones on a pure cost basis,” says Peter Jacobi, Levi's president of global sourcing. “If the team system succeeds, there are a lot of products, like shirts and Dockers jeans, we could produce here” at current wage rates.

Foreign factories may not be far behind, however. One General Motors Corp.'s highest-quality plants is in Ramat Arizpe, Mexico. And AT&T Warwick uses teamwork in Juarez. “The average education level in Mexico is about the ninth grade, but it doesn't take more than that to use new manufacturing techniques,” he says.

If U.S. companies' efforts to boost skills don't reverse wage inequality, it's unclear what will. Until recently, Kotters, among others, thought labor market forces might narrow the gap. He notes that college enrollment rates jumped from 33% of 14- to 24-year-olds in 1984 to 39% in 1990. If the lure of higher pay hastens this trend, then the theory the supply of college grads should eventually match the demand for them. And a resulting shortage of less-skilled workers could ease the downward pressure on pay for these people.

The problem is, this scenario requires a lot more college grads. John H. Bishop, an economist at Cornell University, puts the figure at 1.2 million a year, vs. 1 million now. Both President Bush and Democratic candidate Clinton support tuition-loan programs that would help more students finish college. But boosting the graduation total will be hard to do, given that there are only 25 million 18- to 24-year-olds today, vs. 30 million in 1979. In fact, says Bishop, based on these demographics, “I project a slowdown in the growth of college-educated



BELL LABS

AT&T has cut 21,000 low-skill jobs since 1984 but expanded white-collar hires, such as Jacqueline Gregory, by 8,000

fects as boards are produced. The team tested various antistatic packages used to move the boards along the assembly line and “discovered that a clamshell-shaped package is the best,” says Lewis. The change has helped boost quality and keep Motorola ahead of its rivals abroad.

A few companies are even trying the higher-skills approach in apparel, one of the most labor-intensive industries. In traditional piecework, each worker at a machine sews the right pocket, say, onto 30 garments that arrive in a bundle. Then the bundle moves to the next machine for the left pocket. Recently, companies such as Russell, Levi Strauss, and Sarah Lee Corp.'s Hanes have begun to create teams of 30 to 50 workers that make an entire garment. Operators within each team move between ma-

kers and a continuing escalation of premiums for college graduates." Companies and government could help things out by training more exist- workers. Washington now spends \$4 billion a year on training. Em- ers spend \$30 billion more, mostly to trade the skills of professionals. To ch Japan and Germany, U.S. indus- should be investing \$15 billion more ear, says the American Society for ing & Development. "Even if you l \$60 billion a year in training and ation, we should spend it," argues s Dornbusch. "What else can you do,

given that we're now seeing the results of not doing so, like the L. A. riots?"

Economists once thought that the ine- quality of the past decade occurred mainly because sluggish productivity gains slowed growth—and because low- er-wage workers suffer most when growth stagnates. They assumed that as productivity rose, wage inequality would recede. But global competition may now prevent this. "You can't expect an auto- matic link anymore between the overall economy and less educated workers," says Harvard economist Katz.

This isn't an argument for protection-

ism, with all its negative effects. In- stead, it should prompt debate on ways to ensure that the benefits of free trade don't go just to America's top half. "If there really is a net gain from trade, we ought to compensate the losers" with subsidized training or lighter tax bur- dens, argues Andrew M. Sum, an econo- mist at Northeastern University in Bos- ton. Otherwise, there will be no lifeboats for Allen McAmis, Dreama Fields, and millions more whose ship is sinking.

By Aaron Bernstein in New York, with Walecia Konrad in Blue Ridge, Ga., and Lois Therrien in Arlington Heights, Ill.

GE'S HARD LESSON: PAY CUTS CAN BACKFIRE

When international competi- tion hit the U.S. full force in the early 1980s, most manu- facturers slashed labor costs by ex- pecting concessions or shipping jobs overseas. Some now wonder if this was se. If getting ahead turns as much quality and productivity as on cost, ay reason, maybe there's a better y. That's the thinking behind one ange in plans at General Electric Co. Back in 1987, GE's electric motors vision was in trouble. A chief domes- rival, nonunion Emerson Electric . in St. Louis, paid its workers \$7.20 an hour, vs. GE's \$11, GE says. Both mpanies had opened motor plants in ngapore and Mexico, where wages ere 80¢ to \$1.50 an hour, and GE re- tained No.1 in motors that go into erything from refrigerators to com- ter disk drives. But the division's venues had fallen by 7% since 1984, \$710 million. Return on sales was ss than 2%, vs. an average 6% at her GE units—even ough the division had e the course of a de- e shed 5,300 jobs, % of its total.

UNDER. CEO John F. elch Jr. had threat- ed to jettison any GE usiness not No.1 or o.2 in its market, so e division decided to t. It demanded that s hourly workers ac- pt an 11% cut in pay d forgo scheduled ises of \$1.30 an hour. ey did. Then, after osing 2 of its 12 motor ants, GE guaranteed e remaining 5,400 orkers their jobs for ree years and sank 00 million into new quipment and product

development. "At the time, investing at [existing] wage levels didn't seem sane," says Frank P. Doyle, GE's senior vice-president for external and industrial relations.

What looked like a sweet deal then, GE now sees as a blunder. True, the pay cuts saved \$25 million a year. And the plant closings eliminated 1,000 jobs. But both company and union officials say worker morale sank like a stone. "Productivity went to hell," says Doyle, although he won't give figures.

So, the division is remaking itself again. This time, the strategy centers around modern techniques: just-in-time inventory systems, quality control, design-for-manufacture, and Japanese-style teams of seven to eight workers who rotate tasks and make daily decisions about how work should be done. GE hopes these approaches will offset its wage disadvantage—it still pays \$10 an hour—by boosting efficiency. In- deed, in the past year the division's

productivity gains have been "above moderate," says a GE official, even though the new strategies are just being implemented. Welch has given the unit until 1994 to boost returns. By then, GE wants it to match the efficien- cy gains—generally, 4% to 8% a year—in its other units that have tried team- work. "The biggest change in our thinking since 1988," says Doyle, "is that we now see that the productivity available is really extraordinary."

NEW CRITERIA. It's too early to tell if the new tactic will work. GE still may farm out some labor-intensive work on motor parts such as switches or wash- ers. And the bad feelings from the wage cut persist. In early May, 1,000 workers in Fort Wayne, Ind., voted down contract changes their union ne- gotiated to make teamwork blossom, in part because some people would have lost up to \$5 an hour in incentive pay. But Fort Wayne has set up some teams, and union leaders want them to

work. "If we're going to stay in the motor business, we have to make it profitable," says Dewey D. Minton, who heads the GE con- tingent of the Interna- tional Union of Elec- tronic Workers.

If the latest effort works, does it mean GE erred in giving up on such businesses as TVs and housewares, which seemed doomed against low-wage rivals? GE of- ficials say they haven't done such hypothetical calculations. But, adds Doyle, "the decision cri- teria would be different today."

By Aaron Bernstein in New York



TEAM SPIRIT: "THE PRODUCTIVITY AVAILABLE IS REALLY EXTRAORDINARY"

CLINTON'S ECONOMIC BRAIN TRUST

They don't think government can fix everything, but they don't think market forces can, either

Back in June, with his campaign sputtering, Bill Clinton desperately needed to ignite his Presidential bid. The spark came from an unlikely source: a 22-page economic manifesto. Although it ducked the deficit problem and seemed a mite cautious, the plan was credible. Most important, it began to define Clinton as someone other than a traditional liberal determined to redistribute a shrinking pie. This was a Democrat, voters began to learn, who used words such as "growth" as much as "fairness."

If Clinton doesn't sound like Democrats past, credit the new breed of economic advisers he has gathered around him (table). Most members of this eclectic band of lawyers, investment bankers, management consultants, and decidedly nontraditional economists distrust the old Democratic faith in government management of the economy. Yet they're not willing to leave everything to

market forces. They seek what they call a third way, one that mixes government activism with private investment.

To them, investment in both human and physical capital is the key to the economic future. They eschew Keynesian manipulation of demand in favor of policies aimed at helping business and labor function more efficiently. That bias plays down the role of the heavyweight macroeconomists who used to dominate Democratic campaigns.

Muses Republican activist and Salomon Brothers Managing Director Stephen E. Bell: "Maybe that's why Clinton is doing so well."

The Clinton team has no single economic guru. Several insiders are 1960s student radicals turned fortysomething policy junkies. Most are friends from Clinton's student days. Some, such as Occidental College Professor Derek Shearer, are traditional liberals, while others, such as Progressive Policy Insti-

tute Vice-President Robert J. Shapiro are more market-oriented. They disagree on some key issues, particularly trade and industrial policy. Except for a June session to thrash out the economic agenda and a convention get-together, the group rarely meets. Instead, ideas are chewed over on the phone and by passing around reams of position papers. **'INCENTIVES.'** Most recognize the limits of activist government. Says Blackstone Group Vice-Chairman Roger C. Altman: "Government can't by itself create higher productivity or growth. It can create incentives for investment and a stable environment for business to prosper."

To be sure, in recent weeks, Clinton has widened the circle to include more traditional Democratic economists such as Robert Eisner of Northwestern; Al Blinder of Princeton (a BUSINESS WEEK columnist); MIT Professors Robert Solow, Paul R. Krugman, and Rudiger Dornbusch; Harvard trade specialist Laurence H. White; and Brookings Institution health care expert Henry Aaron. They are he-



THE KNIGHTS OF BILL CLINTON'S ROUNDTABLE



ROGER C. ALTMAN

Vice-chairman of the Blackstone Group, investment bankers. Former Assistant Treasury Secretary for domestic policy in the Carter Administration. Critic of big budget deficits, but urges caution in slashing deficit too quickly now. Says government alone can't create growth and higher productivity



IRA C. MAGAZINER

President of SJS Inc., a Providence (R.I.) management consulting firm. Long a friend of Clinton's, he advocates defense-conversion programs and improved education and training for all U.S. workers. A trade hawk, he probably leans more toward managed trade than others in the brain trust do



ROBERT B. REICH

Lawyer, professor. Harvard's Kennedy School economic adviser to 1988 candidate of Michael Dukakis, author recently of *The Work of Man*. Has known Clinton since he studied at Oxford. Argues for business and capital know-nothing boundaries and pushes human-capital investment

to fill in details of the economic plan. The framework was set a month ago. Clinton's brain trust, which puts pragmatism above economic theory. The best-known is probably Robert B. Reich, who teaches political economics at Harvard's John F. Kennedy School of Government. He's a prolific writer and mentorator who has been raising the stakes of academic economists for years. Clinton's economic manifesto—*Putting People First*—echoes Reich's view that human capital is the key to improving the U.S. standard of living. Reich argues that a country's economy can be built only on its people and their skills. Fiscal policy, he adds, ought to encourage long-term investment, not deficit spending. That argument boosts a view that probably serves Clinton's political interests as well: soft-pedaling the painful choices that would have to be made to slash the massive federal deficit. Says Reich: "Our primary goal is an economic growth plan that generates high real wages and improves productivity."

That view is shared by Shapiro, who has been a wellspring of market-oriented ideas for Clinton and his fellow members of the centrist Democratic Leadership Council. A former journalist who was named as a political economist, he advocates a microeconomic approach to business problems. "We have to focus on what business works," he says. "We can manage capitalism."

Clinton's Wall Street connection also presses hard for market-oriented solutions. Blackstone's Altman, who met Clinton when they were both undergraduates at Georgetown University, renewed their acquaintance after Clinton launched his campaign. Although Altman

was deeply involved in the Carter Administration's bailout of Chrysler Corp., the incident left him with doubts about Washington's ability to intervene in business. "It made me humble about government's role," he says.

Altman once argued strongly for a balanced budget. Now, he thinks a quick, radical deficit reduction "is too much for this fragile economy." While he agrees with Reich that the focus should be on human capital, he also favors government incentives for investment in factories and equipment: "We must invest in both."

Clinton also gets a hard-nosed invest-

It's an eclectic mix of lawyers, investment bankers, consultants, and decidedly nontraditional economists

ment-banking perspective from Goldman Sachs Co-Chairman Robert E. Rubin. He's serving as an economic sounding board for the brain trusters, offering a perspective on how ideas would work in the real world. He has also pressed the need for long-term solutions rather than quick fixes.

The market orientation of Shapiro and the Wall Streeters is balanced on the left by two old friends of Clinton's: Shearer and Ira C. Magaziner. The least-known of the group, Shearer is probably also the most liberal. He heads Occidental's International & Public Affairs Center and has taught urban studies there and

at the University of California at Los Angeles. A onetime anti-Vietnam War activist, Shearer met Clinton while in London doing investigative reporting on the conflict. A close Clinton friend, he serves as a coordinator. Few of his ideas have been adopted by the campaign. He favors aggressive government intervention in both economic and social policy: "I think an activist government works."

HIGH-TECH PUSH. Magaziner, another supporter of government activism, may be the most controversial of the insiders. The management consultant is a pal of Clinton's from their days at Oxford University. He has heavily influenced Clinton's thinking on worker training and education. Unlike Shapiro, Magaziner wants government to support U.S. technologies directly. Says Magaziner: "The extent to which you have strong U.S.-based manufacturing is important."

The role of pulling together these disparate views falls to the youngest member of the team, 33-year-old Gene Sperling. He's also a veteran of the Dukakis campaign and the only one of the group who serves as a full-time Clinton aide. Another macroeconomic outsider, his views have been shaped by Reich, for whom he worked as an assistant at Harvard, and by Lawrence Summers, a former Harvard professor who is now chief economist at the World Bank.

Clinton is, by most accounts, a practical man with little patience for academic theory. "Clinton doesn't have gurus," says Shearer. "He's not set in ideological ways. He wants to know what would work." It's hard to know if Clinton's plan would revive the economy, but so far, it's working just fine as politics.

By Howard Gleckman in Washington



ROBERT E. RUBIN Co-chairman of Goldman, Sachs & Co. Chair of New York City's Economic Development Committee. Barely met Clinton until recently but is pushing policy more in this campaign than in past races. Clinton prepare for devisors market solutions



ROBERT J. SHAPIRO Vice-president of the Progressive Policy Institute, a middle-of-the-road think tank. Former aide to Dukakis, onetime top economic adviser to Senator Daniel P. Moynihan (D-N.Y.), National Bureau of Economic Research fellow. Probably the most market-oriented member of the Clinton economics team



DEREK SHEARER Director of the International Public Affairs Center at Occidental College. He's perhaps the most traditional liberal among the advisers. Briefly served as an aide to California Governor Jerry Brown. Calls himself a student of institutional economics but says: "I'm not a mathematical or highly theoretical person"



GENE SPERLING Lawyer and graduate of Wharton's MBA program. Former aide to New York Governor Mario Cuomo. Acts as a traffic cop for economic ideas, in constant touch with the brain trust as well as an expanding group of macroeconomists who serve as unofficial advisers to the campaign

DATA: BW

CATERPILLAR'S DON FITES: WHY HE DIDN'T BLINK

The combative CEO breaks his silence about the strike and the reasons he took such a tough line

During the mid-April climax of the five-month United Auto Workers strike at Caterpillar Inc., there was no shortage of media coverage. If the morning news didn't feature strikers hurling epithets at workers crossing the picket lines, you could always count on the evening report. Union leaders shouted slogans; Caterpillar flacks responded from their own set of cue cards. When Cat finally—and remarkably—broke the mighty UAW with the threat of hiring replacement workers, the collapse registered on TV screens from coast to coast.

But throughout the strike, one face was notably absent from the spotlight: that of Caterpillar Chairman Donald V. Fites. Cat's top executive avoided press conferences and ducked interviews. He revealed nothing of himself or how far he was willing to push the union. By the time he delivered his threat to replace Cat's 11,000 striking workers, it caught the union flat-footed. "We never thought he'd actually go that far," says UAW Local 145 President John Paul Yarbrough. **GRITTY RESOLVE.** They should have checked his resumé. To the outside world, Fites, 58, had been an invisible member of Caterpillar's vast bureaucracy. But since the early 1970s, he has focused a gritty resolve on bending the company to his vision of what makes an industrial enterprise efficient. He revamped Cat's product development process in the mid-1970s and overhauled worldwide marketing during the late 1980s. Since assuming Caterpillar's helm in 1990, he has broken the \$10 billion monolith into smaller, more manageable units. Says former Caterpillar Chairman Lee L. Morgan: "He's one of the most determined men I've ever met."

Staring down the union—if it came to that—was merely a logical extension of Fites's drive to remake Cat. Years spent overseas, particularly in Japan, convinced him that America's manufacturers are held back by inefficiency, including labor relations. "In Japan," he says wistfully, "unions are deeply dedicated to the success of the company, and Japanese companies have been very success-

ful." Cat railed on about wages during the strike, but the real clash was over power. In the face of the UAW's insistence on "pattern bargaining"—a process whereby all companies in an industry accept similar union contracts—Fites was bent on reasserting the company's "right to manage."

Of course, Fites's hard line runs the risk of alienating his union workers, rather than drawing them closer in some Japanese sense of corporate family. But once he dug in his heels, Fites wasn't going to budge. Friends say he wears stubbornness like an old pair of jeans. He first slipped them on while growing up poor on an Indiana corn farm. "When he makes up his mind, he isn't easily swayed," says farmer William W. Erwin, a lifelong friend. The UAW found that out the hard way. "I didn't begin negotiations intending to hire replacements," Fites says, "but I felt I had no choice."

Since becoming chairman of Caterpillar, Fites has done more to transform the stodgy heavy-equipment maker than any of his predecessors. "He has completely changed the culture," says industry consultant Frank Manfredi. The centerpiece has been a rugged restructuring of the organization chart—a plan instituted under his former boss, George A. Schaefer, but designed by Fites. He briskly sketched it out one day while sitting at his desk. "We talked to all the consultants," Fites says, "but who knows the business better than those who work there?"

The idea was to thin the bureaucracy and move responsibility for decision and profits—further down the line. While axing 2,000 salaried and 5,000 hourly workers, Fites broke Caterpillar into 14 profit centers, requiring each to post a sizzling 15% return on assets—else. It was no idle threat. When the company's money-losing forklift division

failed to measure up, Fites dumped it into an 80-50 joint venture controlled by Mitsubishi Heavy Industries Ltd.

Fites's fervor for efficiency stems from a long career overseas. Since he joined Caterpillar's marketing department in 1956, straight out of Indiana's Valparaiso University, he has shuttled between U.S. headquarters and foreign outposts like a diplomat. He started as a district sales representative in South Africa where he met a South African named Sidney Dempsey and married her. Caterpillar eventually shipped the couple to Germany and then there to Switzerland.

A WARNING. Fites returned to the U.S. in 1970, and Cat sent him to the Massachusetts Institute of Technology for an MBA. His thesis: *Japan Inc.: Can U.S. Industry Compete?*

warned of Japan's growing export prowess. It also earned him a 4½-year stint as marketing director of Caterpillar's construction-equipment joint venture with Mitsubishi in Tokyo.

Globe-trotting taught Fites how a large bureaucracy can be. When making sales calls in Africa, for instance, he often had pricing decisions

DONALD V. FITES

PERSONAL

Age: 58

Born on a 90-acre farm in Bourbon, Ind.

EDUCATION

Valparaiso Univ., BA, 1956
MIT Sloan School of Management, MBA, 1971

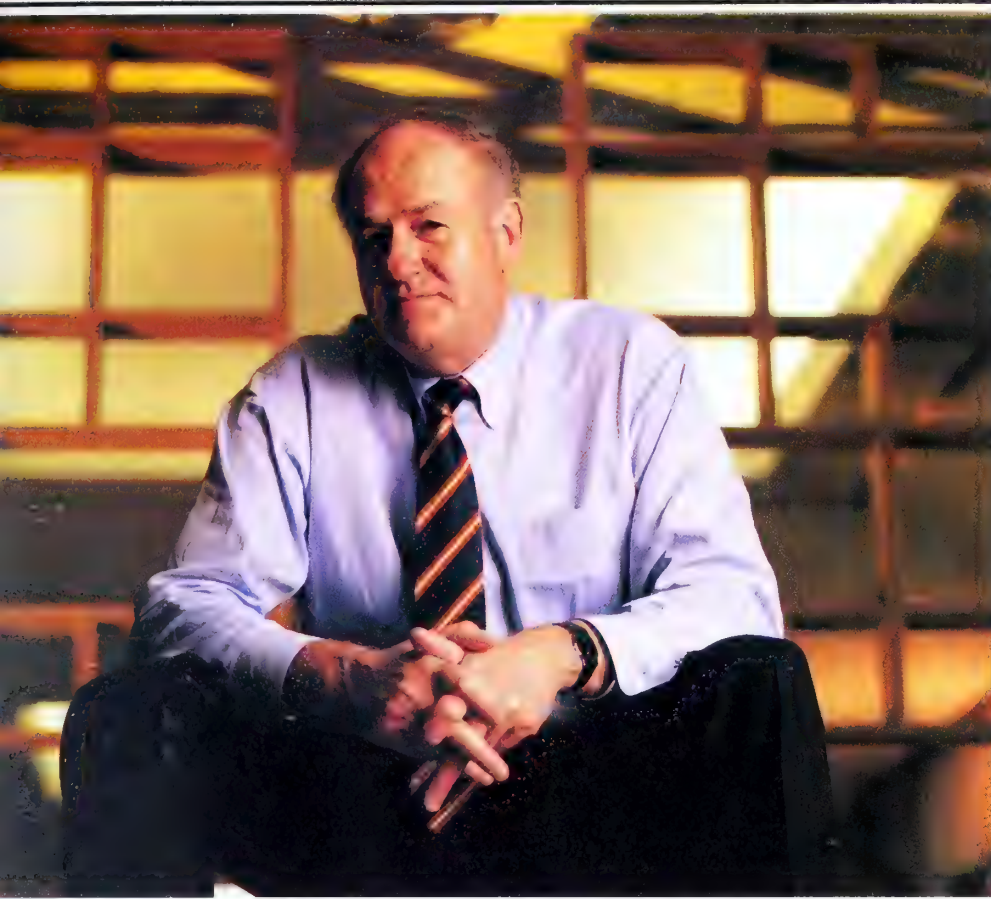
CAREER TRACK

Began at Cat after college. Spent total of 16 years bouncing around South Africa, Europe, Brazil, and Japan between stints in Peoria. Wrote master's thesis on Japanese manufacturing but rose through the Cat sales organization. Named president in 1989. Architect of Chairman George Schaefer's vaunted program to push down authority by breaking Cat into 14 separate profit centers

FAVORITE LEISURE ACTIVITY

Aerobics three times a week at a Peoria gym

DATA: BW



FITES: "I DIDN'T BEGIN NEGOTIATIONS INTENDING TO HIRE REPLACEMENTS, BUT I FELT I HAD NO CHOICE"

ced upon him from headquarters that little sense in the local market. "I was on the scene and knew what needed to be done," he recalls. "But someone back at General Office would make decisions that didn't fit the situation."

Fites also had plenty to learn. In Japan, where he got his first experience on the factory floor, he liked the way companies rotated their managers through operations, engineering, and sales, creating better-rounded leaders. He also admired labor relations in Japan, where each company has its own union and the workers tend to subsume their interests to those of the company.

Fites's Japanese counterparts, however, don't remember him as a particularly dynamic executive. "Compared to other Caterpillar people I met, he wasn't that outstanding," says Takechi Kondo, the joint venture's marketing director. He says the young American didn't truly understand the premium Japanese customers placed on product quality. "The Japanese were sensitive to that before," Fites admits.

TO FAT? As soon as he had the chance, Fites applied in Peoria what he had learned overseas. In 1975, he turned Caterpillar's product development group on its head by taking the then-radical step of engineering with Japanese-style cross-functional teams. The teams included marketing, design, and manufacturing

people, integrating the development process so plans wouldn't have to be passed back and forth among departments. Development time was cut in half.

Cat's worldwide marketing structure was Fites's next target. Recalling how distant and overbearing the central office seemed when he was a salesman, he was convinced Cat paid too little attention to its customers' needs. So when he rose to executive vice-president in 1985, he put more marketing staffers into the field and turned over authority for such market-sensitive matters as pricing to district offices. Then, believing the department was too fat, he cut 100 management jobs—a rare move in paternalistic Peoria headquarters.

Fites's Japanese experience resounded throughout his clash with the UAW. The most public issue was wages. During the strike, Caterpillar repeatedly asserted that it had a 25% disadvantage in hourly labor costs vs. Japanese rivals such as Komatsu Ltd. But that figure doesn't

The animosity Fites has engendered could easily make his victory a Pyrrhic one

take into account the high productivity of Caterpillar's work force and is hotly disputed by the UAW, which says the cost differential is more like 6%. Most compensation experts agree that simply comparing wage-and-benefit programs between the two countries is virtually pointless; measuring productivity is essential. To do that, "unit labor costs" would have to be compared, and Cat won't reveal those figures. Fites insists the wage issue was crucial, but it seems unlikely that he would bet his company on something so ill-defined.

Rather, Fites talks today about another, less tangible, set of issues he labels "the right to manage." The UAW, he says, tried to commandeer Caterpillar by demanding that it accept what Deere & Co. granted in its 1991 contract—the old process of pattern bargaining. If it agreed to the terms Deere accepted, Caterpillar would have had to remain neutral if the union

tried to organize the company's 2,000 nonunion factory employees, guarantee a specific number of UAW jobs, and give the union input on which jobs should be performed by outside suppliers. "We will never agree to these things," Fites says.

BIG STEPS. Maybe not. But the animosity Fites has created could easily turn his victory Pyrrhic. Since 1986, a teamwork system with labor has helped boost Cat's productivity 30%. Now, that collegial approach may be lost in rancor. Moreover, the UAW believes that the current fracas is only the first round of a long war. In initial talks, Fites demanded an end to companywide contracts in favor of agreements based on the needs of each of the 14 profit centers. The plan was eventually dropped, but the UAW, which sees the demand as truly threatening, expects to see it again.

Fites has staked his reputation on his ability to reorganize Cat and win labor peace without sacrificing productivity. That may take a lot more than a healthy dose of Midwestern stubbornness. Still, Fites has already done much to define the course of labor relations in the 1990s, steering it in management's favor. From here on out, it's unlikely that anybody will make the mistake of underestimating him again.

By Kevin Kelly in Chicago, with Aaron Bernstein in New York and Robert Neff in Tokyo

'THE SYSTEM WAS PERFECT'

BW INVESTIGATES PERHAPS THE BIGGEST INSIDER-TRADING RING SINCE BOESKY

One day in May, 1989, Michael H. Borlinghaus, president of a small Wall Street trading firm, picked up an intriguing tip: Jerrico Inc., which owns a seafood restaurant chain, would soon be taken over by a New York investment group. He told his partner Heinz F. Grein and suggested their firm, Frost & Sullivan Holding Corp., acquire a position in Jerrico. Three months later, Jerrico agreed to the takeover at 24¼ a share, up from 16 when Frost & Sullivan started buying in.

Where did the tip come from? Borlinghaus denies any illegal activities, but Grein claims Borlinghaus made it clear to him that the tip had come from someone with access to inside information.

Over the next two years, Frost & Sullivan became the center of a far-flung insider-trading network—perhaps the largest since Ivan F. Boesky pleaded guilty in 1986. The firm invested in at least two dozen deals, including the takeover of Motel 6, Norton, Square D, and Birmingham Steel and asset sales by Time, AmBase, General Signal, and Mission Resource.

From leads provided by Grein and after its own four-month investigation, BUSINESS WEEK is now able to flesh out the dimensions of the ring and identify individuals who appear to have been its major participants. Most of Grein's leads have been corroborated by independent sources, including investors and such documents as trading and bank records.

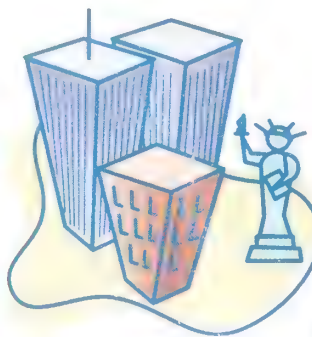
Besides Grein and Borlinghaus, the evidence suggests that the alleged ring also included: Christopher M. Garvey, a young legal assistant who worked for two years at Skadden, Arps, Slate, Meagher & Flom, a large New York law firm specializing in financial deals; Leonard S. Bellezza Jr., a high executive at R. H. Macy Co.; and David J. Simon, a private investor in takeover deals. Simon's lawyer and Bellezza deny any wrongdoing, while Garvey's lawyer did not offer a response.

DETERRENCE? The alleged ring functioned through an ingenious trading system that stretched from New York to Panama to Luxembourg and Switzerland. Much of the trading was channeled

through BfG:Luxembourg, the Luxembourg branch of Frankfurt-based BfG für Gemeinwirtschaft (BfG), the seventh-largest commercial bank in Germany. BfG advanced loans to many of dozens of well-heeled U.S. and European investors who put money in the ring's stocks. German law-enforcement officials familiar with the operation estimate that at least \$20 million was invested in insider-trading-related transactions.

These activities raise questions whether the massive publicity of insider-trading prosecutions during the late 1980s has had any deterrent effect. On June 1, the Securities & Exchange Commission brought charges against seven prominent East Coast executives and in-

HOW THE TRADING WORKED



HEINZ F. GREIN

1 Trading orders were initiated by Heinz F.

Grein, a partner at Frost & Sullivan, a small Wall Street securities firm that invested mainly on behalf of wealthy European investors. Many of the orders were based on inside information allegedly provided by a variety of sources, notably Christopher M. Garvey, a former legal assistant at the law firm of Skadden Arps Meagher Slate & Flom



CHRISTOPHER M. GARVEY

tors who allegedly passed tips back and forth with seeming abandon.

Some of the Frost & Sullivan deals, notably Motel 6 and Norton, are being probed by the SEC, which has also been checking into the activities of the former Skadden legal assistant. German prosecutors have been looking into possible tax-evasion violations by some of the European investors. But U.S. prosecutors seem unaware even of the existence of the Frost & Sullivan ring, let alone its broad scope. No charges are known to have been filed by U.S. prosecutors against any of the alleged participants.

Many details about the network are

n Grein, an intense, powerfully built, ear-old private investor who came to U.S. from Germany in 1987. Grein ded to tell his story to BUSINESS K after the ring fell apart following ries of investments that went sour. st & Sullivan is now out of business. in claims he had become increasingly omfortable with participating in ille-activities. His lawyers have held pre-ary discussions with federal prose-ors about a plea bargain under which would admit to a reduced set of ges and agree to testify against oth- in the ring. The lawyers have not yet lged to prosecutors any details of ring.

GOT LUCKY. According to Grein, oversaw Frost & Sullivan's trading, linghaus was the chief contact for rmation sources. A trained chef who rated an institutional food-service iness, Borlinghaus has portrayed self to federal investigators as being nominally involved with Frost & ivan's operations. Borlinghaus says investment tips came from casual rsations. "You can't call it insider ling," he adds, "though we etimes got lucky." But Werner eelee, a commodities trader ed in Luxembourg who invested Frost & Sullivan deals, claims

plex trading arrangement designed to permit European investors to evade taxes. After Jerrico, he carefully studied the trading methods of convicted insider trader Dennis B. Levine, which had proved relatively easy for prosecutors to penetrate. Levine actually operated under his own name when he traded in the Bahamas. Grein realized his tax-evasion system, especially its network of Panamanian-registered companies, would be much more effective than Levine's system in shielding investors from insider-trading inquiries.

It worked this way: Frost & Sullivan's European investors owned or leased at least 15 Luxembourg subsidiaries of the Panama-registered companies, which the investors used as trading vehicles. The companies

cessful, Grein would then transfer half the profits to the investors' companies and would retain the rest in his companies for Frost & Sullivan.

Under Grein's system, law-enforcement authorities could trace trading to Frost & Sullivan. But the firm could say it was merely executing orders for clients. Unless the authorities could identi-

fy the real owners, which was impossible under existing Panamanian and Luxembourg law, they couldn't bring charges. "The system was really perfect," Grein says with pride. "You couldn't break it."

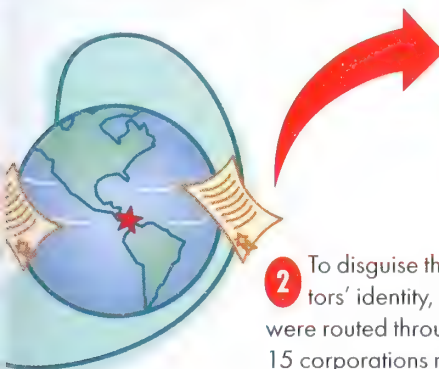
To further frustrate prosecutors, Grein assembled extensive files of brokerage reports, news clippings, and other public-information sources that he could claim were the basis for his trades. And to throw prosecutors

off the trail, he often traded directly in New York through Wagner Stott & Co., a securities firm from which Frost & Sullivan leased office space. When he was sending orders through BfG based on inside information, he would at the same time make New York trades that were inconsistent with insider trading.

Grein says he asked Borlinghaus to shield him from Frost & Sullivan's information sources so that if he were questioned by prosecutors about sources, he could truthfully disclaim any knowledge. When problems arose with the quality of the deal information, however, Grein was forced to talk directly to some sources.

Much of the investment money for the ring was solicited by Heiner Wille, a Düsseldorf-based investment adviser who represented Frost & Sullivan, and Lothar Poschmann, a senior executive at BfG:Luxembourg responsible for private investors, who also arranged loans and credit lines. The investors included Friedebert Schaubert, a Frankfurt commodities trader who invested \$3 million; Juergen Kaape, a real estate broker in Hamburg who put in \$1.3 million; Antoine Teillagory, a French businessman who invested \$2.8 million; and Werner Scheele, the Luxembourg trader, who put in \$1.3 million.

SURE THINGS? There seemed to be little mystery to investors about why Frost & Sullivan was a good place to put one's money. Certainly, the opportunity for tax evasion may have been a selling point. The key, however, was what Frost



2 To disguise the investors' identity, orders were routed through 15 corporations registered in Panama, where record-keeping is lax



3 Orders were actually placed by the Luxembourg branch of BfG, a large German bank headquartered in Frankfurt. The Panamanian companies had accounts at BfG, which lent money to the investors



4 Orders were executed by U.S. brokerage houses on the New York Stock Exchange and other markets

linghaus told him in 1991 that the stments were made on the basis of le information.

hen Grein first came into contact 1 what he believed was inside infor- ion in the Jerrico deal, he was initial- mbivalent. "My opinion was quite ;," he recalls. "It was quite clear to that we did something illegal. But excuse was, everyone does it." Soon, igh, he threw himself into insider ing. There had been no inquiries n law-enforcement agencies after ico, which Grein says seemed to sub- tiate Borlinghaus' assurance that, Grein says Borlinghaus told him, re's no problem if we do it the t way."

rein had already established a com-

had accounts at BfG:Luxembourg and were administered by Charles Ewert, a professional trustee who also nominally headed Frost & Sullivan Holding Corp., the U.S. firm's parent.

When Frost & Sullivan received a tip, Grein would inform his network of wealthy European investors, who would deposit funds in their Panamanian companies. Often, they would borrow the money or draw on credit lines from BfG. Grein would then transfer the money to other Panamanian companies that he controlled. Through those entities, Grein would issue trading instructions to BfG, which would route the orders to U.S. brokerage houses such as Merrill Lynch & Co. and Shearson Lehman Brothers Inc. for execution. If the deal was suc-

& Sullivan hinted at as its inside track on takeover deals. "Everyone at BfG who knew Grein, including myself, was sure his deals were based on inside information," says Poschmann. "That was his bait for investors."

The inside information originated from and was transmitted by a wide range of sources. But apparently by far the most important originator, according to BUSINESS WEEK's probe, was Christopher M. Garvey, who went to work as a legal assistant at Skadden Arps's Manhattan headquarters in the summer of 1989 following his graduation from Harvard University. Garvey left Skadden in August, 1991, after officials from the SEC and the Manhattan U.S. Attorney's office, who were conducting an insider-trading probe, expressed interest in Garvey's activities. There is an overlap between deals mentioned by law-enforcement authorities that Skadden had worked on and those in which Frost & Sullivan invested. BUSINESS WEEK was unable to reach Garvey. His lawyer, Debra Grobman, was asked for a response, but she did not provide one.

How did Garvey's information reach Frost & Sullivan? BUSINESS WEEK was unable to determine the method. There is substantial evidence about one apparent link in the chain: Leonard Bellezza, 45, senior vice-president with Macy's Northeast Inc. Bellezza has been an occasional business partner and close neighbor of Michael Borlinghaus in Middletown, N.J., where Grein also lived. But how would Bellezza have gotten the information?

One curious event is a dinner in August, 1991, presumably before Christopher Garvey left Skadden, at Peter Luger Steakhouse, a popular Brooklyn restaurant. At the dinner were Werner Scheele, Borlinghaus, Bellezza, and an individual introduced to Scheele as "Lieberman." One purpose of the dinner was to persuade Scheele to invest in a new network similar to Frost & Sullivan's that would operate through the Luxembourg branch of Bank Leu Ltd., which is based in Zurich. "Lieberman" was the selling point: Scheele says he was told

HOT TIPS...

BW's investigation focuses on a dozen deals where trading records and other evidence pointed to insider trading. Early deals were profitable to investors, but they took big losses on later ones. That helped produce growing strains among investors and bring about the ring's demise

JERRICO

AUG. 7, 1989 Agreed to be acquired by DJS-Inverness & Co. and Castle Harlan Inc. Substantial profit to investors

BIRMINGHAM STEEL

SEPT. 18, 1989 Accepted a takeover offer from Harbert Corp. Offer was later withdrawn, but investors made a profit of between \$5 million and \$7 million

TIME INC.

NOV. 22, 1989 Announced sale of Scott Foresman unit to Harper & Row Publishers. Modest profit to investors

NORTON CO.

MAR. 16, 1990 Got a takeover bid from BTR PLC. Investors made \$3.9 million

MOTEL 6

JULY 12, 1990 Accepted an acquisition offer by Accor. Investors reaped at least \$3 million in profits

that he was the father of the Frost & Sullivan insider-trading network's "ultimate source," an individual who had graduated not long ago from Harvard. There was a discussion about the ultimate source's future educational plans. Scheele says it was clear to him that "Lieberman" was not the individual's real name. Scheele's account of the dinner is buttressed by Grein, who says Borlinghaus briefed him.

Christopher Garvey's father is William P. Garvey, senior vice-president for Grey Advertising Inc., one of New York's largest ad agencies. Yet BUSINESS WEEK

found no evidence linking him to the ring. The elder Garvey declined comment on the record. Debra Grobman, Christopher's lawyer, told BUSINESS WEEK that any allegation that William Garvey may have been involved with inside information was "totally untrue."

Leonard Bellezza denies any participation in an insider-trading scheme and says he never heard of the Garveys or Skadden Arps. He says he took positions in a "couple of" the stocks traded by Frost & Sullivan, but only on the basis of information from Borlinghaus.

MONEY MAZE. At least one of Bellezza's investments may have been quite profitable. In March, 1990, Bellezza traveled to Luxembourg to pick up money that Grein says was his cut of the profits from a trade related to inside information. Bank documents (page 62) show that on Mar. 26, 1990, two BfG:Luxembourg checks for \$15,000 were drawn on one of Grein's Panamanian companies payable to Anthony J. Peni. Bellezza's father-in-law, and Union Counties Trust Co., Bellezza's bank. Grein also withdrew \$320,000 in cash, which, he says, he also gave to Bellezza.

Grein says the checks and cash represented Bellezza's share in profits from an investment in Norton Co., an abrasives maker whose stock jumped sharply when it received a takeover bid from London-based BTR PLC on Mar. 15. Skadden represented BTR. Frost & Sullivan had purchased call options between 2 1/4 and 5 from Mar. 9 to Mar. 15 and sold out its position at as high as 20 on Mar. 19-20, for a profit of \$1 million. The SEC contacted Frost & Sullivan in connection with an insider-trading investigation involving Norton.

Bellezza confirms receiving the checks, but he denies that they were linked to insider-trading profits. He says the checks were a repayment of a loan he had made to Borlinghaus. He denies receiving any cash. Borlinghaus could not be reached for comment on the transactions.

In November, 1990, Bellezza was allegedly involved in an insider-trading discussion. Friedebert Schaubert, in an

THE CAST OF CHARACTERS

LEONARD BELLEZZA JR.

Senior vice-president at Macy's Northeast division

MICHAEL H. BORLINGHAUS

President of now-defunct Frost & Sullivan

CHRISTOPHER GARVEY

Former legal assistant at law firm of Skadden, Slate Meagher & L

view with BUSINESS WEEK. Lothar Poschmann, in his testimony related to a legal proceeding in Germany against Grein, say they met at Bellezza at Grein's house in New Jersey after several Frost & Sullivan investments fizzled. Bellezza, they say, assured them by revealing he had information that Schneider, a French electrical-engineering company, would make a takeover bid in January, 1991, for Hansa D Co., a U.S. electrical products maker. At the time, Grein was representing Schneider, which did make the bid in February. Schaubert tried to kick in an additional \$1,000, while Poschmann contributed over \$1 million from several BfG clients, who were told about their investments. Bellezza says he attended a party with Schaubert and Poschmann but denies discussing Square D.

The second conduit of inside information, according to Grein, was David J. Simon, 41, a private investor who trades on takeover deals and special situations for his own account under the name of Twin Securities in midtown Manhattan. Lee Richards, Simon's attorney, denies any allegations that Simon was involved with inside information are "totally false." Simon has never been charged with wrongdoing. Simon, however, is apparently someone in whom the SEC has taken an interest. The commission denied a Freedom of Information Act document request submitted by BUSINESS WEEK on the grounds that materials concerning "the investigation of David J. Simon" were "investigative records compiled for law-enforcement purposes, the release of which would reasonably be expected to interfere with enforcement proceedings." Lee Richards says he and Simon are "unaware of any investigation currently pending against Mr. Simon." Simon's name first surfaced publicly in connection with the prosecution in the late-1980s of the so-called "Yuppie Five," an insider-trading ring of young Wall

...AND COLD ONES

HARCOURT BRACE JOVANOVICH

MAY, 1990 Was the rumored target of a renewed Maxwell takeover bid. Bid never materialized. More than \$5 million in losses

AMBACE CORP.

AUG. 14, 1990 Agreed to sell Home Insurance Co. unit to Vik Brothers International and Trygg-Hansa Holding. Loss because stock declined

MISSION RESOURCE

OCT. 9, 1990 Agreed to sell most of its assets to Santa Fe Energy Resources. Loss because Mission's stock declined

GENERAL SIGNAL

OCT. 22, 1990 Announced sale of its New York Air Brake Div. to Knorr-Bremse, and of its General Railway Signal unit to Sasib. Loss because stock declined

GEORGIA GULF CORP.

JANUARY, 1991 Was reported to be a takeover target. Deal never materialized. Investors made only a tiny profit

SQUARE D CO.

FEB. 19, 1991 Received takeover bid by Groupe Schneider. Deal went through, but investors took large losses because deal was delayed beyond expiration of investors' call options

STANLEY WORKS

JUNE 7, 1991 Disclosed that Newell Co. planned to boost its position to a 15-25% stake. Losses because expected takeover bid never materialized

Street professionals. Simon was a friend and high school classmate of Andrew Solomon, one of the yuppies who testified against his compatriots. In one of the trials, Solomon testified that he had given "material nonpublic information" to Simon on Revco D.S. Inc. and MGM Pathé Communications Inc. He also said Simon had given him inside tips on Macy's, Occidental Petroleum, MidCon, and Jack Eckerd. At the time, Simon was a research analyst in the risk-arbitrage department of the investment firm of Spear, Leeds & Kellogg.

Simon's main contact to Frost & Sulli-

van was through Joseph P. Greenwald, an options trader on the American Stock Exchange and president of Greenwald Securities Trading Inc., whose offices adjoined Frost & Sullivan's at 2 Rector St. Greenwald and Simon are business partners, and Simon manages some of Greenwald's money. According to Grein, Greenwald often discussed trading strategies with Joseph Latona, Frost & Sullivan's trader.

MOTEL DEAL. According to Grein, Simon played a central role in one of Frost & Sullivan's most successful insider-trading plays: the acquisition in July, 1990, of Motel 6 Corp. by Accor, the French hotel and tourism concern. The SEC, in its Freedom of Information Act letter, said its records show "no relationship" between the Motel 6 probe and its investigation of Simon. Yet Grein says he was told by Latona, as Grein puts it, that "Simon initiated this deal" and that "Simon had the contact with the [information] source." Grein says Simon's name was mentioned frequently by Greenwald and Latona in discussions about Motel 6. He also says he was told that Simon and his family invested heavily in Motel 6 before the deal was announced.

Richards, Simon's lawyer, says there is not "a shred of evidence" that his client traded on inside information on Motel 6 and that reports of his involvement are "wildly inaccurate." Stephen E. Kaufman, Greenwald's attorney, says his client "unequivocally denies" any allegations of insider trading. Latona couldn't be reached for comment.

According to BUSINESS WEEK's investigation, the source of the information was a senior executive at Motel 6. He disclosed details of the negotiation to a close friend, who was ill with AIDS and later died. The friend sold the information to Frost & Sullivan for \$200,000. Grein says he has firsthand knowledge that a check for \$200,000 was sent to the source.

Extensive predeal trading in Motel 6

F. I.
President and
of trading
& Sullivan

LOTHAR POSCHMANN
Former vice-president at
the Luxembourg branch of
BfG, a large German bank

FRIEDEBERT SCHAUBERT
Frankfurt commodities
trader and Frost &
Sullivan investor

WERNER SCHEELE
Commodities trader based
in Luxembourg and inves-
tor in Frost & Sullivan deals

DAVID J. SIMON
Private investor
in takeover
transactions

A PAPER TRAIL

► Trading records show that Norton Co. call options were bought at \$2 to \$5 just before Norton was taken over on May 14, 1990. The positions were closed out at around \$20

▼ Bank records show two \$15,000 checks, one to Leonard Bellezza's father-in-law, Anthony J. Penta, and another to United Counties Trust, Bellezza's bank. Grein says \$320,000 in cash also went to Bellezza, who denies receiving it.

BfG: Luxembourg
Société Anonyme

Belastingdienst
K. Luxemburg 17 Buxs

BfG

- BELASTUNGSANZEIGE -
- MÄRCHÉ LIBRE -

KONTOKORREKT-KONTO
1546370/212/001
DELGARD AND WATTS

US \$
GESUEHREN: 15.000,00
TOTAL: US \$ 25,90
VALUTA: 23.03.90 15.025,00

ZAHLUNG ZU GUNSTEN:
DELGARD AND WATTS
TRADING INC

PANAMA-CITY

INFORMATION AN DEN BEGUNSTIGTEN:
SCHECK ANTHONY J. PENTA

PAINT
MA
PANT
NS&A
DEGR
SERV
TOTA
VALL
ZAHL
WELC
TRADE
PANAM
INFO
SCHE

BfG: Luxembolgy
Société Anonyme
Compagnie
BfG: Luxembourg

- BELASTUNGSANZEIGE -
- MARCHE LIBRE -

KONTOKURRENT-KUATO
AS4630/P/212/301
DELGARD AND WATTS

US \$ 15.000,00
BEFUGHREN: 25,00
TOTAL: US \$ 15.025,00
VALUTA: 23.03.90

ZAHUNG ZU GUNSTEN:
DELGARD AND WATTS
TRADING INC

PANAMA-CITY

INFORMATION AN DEN BEGUNTIGSTEN:
SCHECK UNITED COUNTRIES TRUST

Postmark
BELASTUNGSANZEIGE
LUXE
KEIN POSTULUM O
DELANCO V'D WATTY
TRADING INC
DALLAS-CITY
TEXAS
KONTO-NUMMER
054630/0212/001
WERT: 23.03.90
ZU GUNSTEN:
HERRN
HEINZ-FRIEDRICH GRFIN
D-5300 BONN

sparked a broad SEC probe, which is still under way. The SEC declined to charge the Motel 6 executive on the grounds that he had not intended the information to be disseminated. Nor did it charge his friend because of his health.

According to Grein and German sources, there was also a two-way information flow between Frost & Sullivan and Luxembourg, where insider trading was then legal. It still is legal in Germany. BfG officials, he claims, invested in Frost & Sullivan deals such as Norton, Motel 6, and Square D. "Every deal was discussed with the bank's top management," says Grein. "In fact, many of my trades spread all over Europe." In return, says Grein, BfG officials gave Frost & Sullivan tips on such companies as Ultimate, Kay Jewelers, Contel, and NCR. A BfG spokesman at the bank's Frankfurt headquarters says an internal inquiry "has found no improprieties in management's own accounts."

For a time, the Frost & Sullivan network worked spectacularly. In addition to Motel 6, Norton, and Jerrico, Frost & Sullivan made big profits for its investors on Birmingham Steel and Time. But in mid-1990, a time when Wall Street's deal mania was subsiding, things started to deteriorate. Frost & Sullivan suffered its first big loss. Bellezza, says Grein, had passed along information that Brit-

ish media baron Robert Maxwell, who had tried to take over Harcourt Brace Jovanovich Inc. and then backed away, was preparing a new bid. Skadden Arps was, at the time, working for Maxwell. But no deal ever materialized, and Frost & Sullivan's investors ended up with losses of \$2.7 million.

WIPEOUT. Things got even worse. There were more losses on Mission Resource, AmBase, and General Signal. The losses were exacerbated by the fact that many of the investments were in options that expired unexercised, wiping out investors' total stakes. In most cases, deals under consideration were dropped. In other cases, says Grein, information from Christopher Garvey, who was a novice to Wall Street dealmaking, was garbled or incomplete.

The string of setbacks produced growing strains within the network. Grein and Borlinghaus began arguing about who was to blame and who should have to eat the losses. The European investors became ever more restive. "People were getting unhappy," agrees Grein. Having been reassured by Bellezza of a big killing on Square D, many were angry when the Schneider bid was postponed beyond the expiration of nearly all of the options that investors had acquired. Many of the investors, whose cash had been put into deals without

their permission, complained to BfG:Luxembourg and threatened to go to the bank's headquarters. Poschma says he had discretionary power over those accounts, but the bank denies that he did.

By April, 1991, the network was disintegrating. Frost & Sullivan effectively shut down. BfG fired Poschmann. BfG replaced the entire top management. BfG:Luxembourg, and sued Grein for defrauding the bank. Grein and I have also been sued by several of the investors. They claim Grein had guaranteed their investments would be profitable. Although he has not been formally accused of wrongdoing, Grein ended spending three short stints in jail in connection with these actions. In Europe the targets of private suits often are jailed briefly for procedural reasons.

All of this has taken its toll on Granger. "I went through hell," he says. His marriage has collapsed, and he is deeply in debt. But he is now looking forward to writing a book about his experiences. He says that by admitting his misdeeds, he hopes to rebuild his now-strained relationship with his three young children. "Now, the pressure is off," he insists. The same cannot be said for those people who gave him information.

By Chris Welles in New York and Reichlin in Bonn

BfG: Luxembourg

[illegible]

GENE G. MARCIAL

WILL BAIRNCO TURN INTO COMEBACK KID?

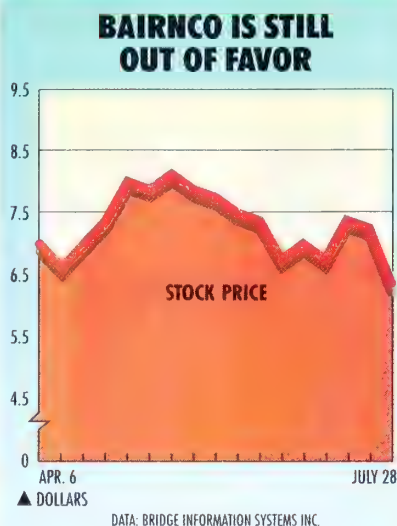
Bairnco, one of the high fliers of the 1980s, caught the Street's fancy back then as it acquired companies and then spun them off to shareholders. Its stock flew as high as \$100 a share in 1987. In the past two years, however, Bairnco has received nothing but the Street's scorn, and the stock now trades at 7 3/4. But of late, some big investors have started buying. "The stock is now dirt cheap," argues one New York money manager.

According to this investor, Bairnco, a diversified manufacturing company, is close to its book value and deserves a much higher price-earnings multiple: Based on estimated 1992 earnings of 65¢ a share, the stock is trading at a p-e of 11. And based on his 1993 estimate of 85¢, the p-e is 8.6.

This money manager thinks that Bairnco, which has just restructured operations to focus on three niche-market businesses, is "well on its way to a sharp earnings turnaround."

TING EDGE. Earnings had been in a spin since 1988, culminating in a loss of 67¢ in 1990. Back in the black last year with earnings of 41¢ a share, Bairnco is expected to benefit from its three profitable core segments. One produces such specialty products as band-saw blades for cutting frozen meat and fish, meat chopping plates, and knives for food stores and food-processing plants. Bairnco also makes electronic materials and components, including microwave circuit boards for cellular telephone base stations, broadcast satellite television, and military radar. Bairnco's third unit makes engineered laminates, pressure-sensitive adhesives, and silicone rubber for a wide range of commercial products. The speculation is that Bairnco will spin off to shareholders its Raytheon unit once it gets back on its feet. Raytheon makes protective chambers used by the military to test explosives and has been a money loser because of weak demand for defense products.

Analyst Harry Katica of Raymond, James & Associates is high on Bairnco. He notes that the stock is trading at a 20% discount to its peer group's average of 13 times estimated 1992 earnings. Katica says that the stock should trade at 15 to 16 times 1993



estimated earnings, or 12 to 13 a share.

A number of corporate insiders have been buying shares on the open market. *Vickers Weekly Insider Report*, which tracks the trading activity of corporate executives, has included Bairnco in its own 15-stock "Vickers Insiders' Portfolio."

THIS LIGHT JUST KEEPS ON SHINING

With a market jittery about earnings, a stock usually gets smashed when the company's results trail the year-ago figure. So on July 27, when ILC Technology reported fiscal third-quarter earnings of 24¢ a share vs. 30¢ last year, one might have expected a sharp sell-off, especially since technology stocks have been out of favor of late. Yet the stock didn't get knocked down—in fact, it inched up from 10 1/2 to 10 3/4.

What's propping up ILC? A lot of savvy investors think that at these levels, this stock is a great buy. As one of the world's major makers of high-intensity lamps used in endoscopic surgery and to activate lasers, "ILC is one surefire way of playing the medical-device game," says investment manager George Clairmont, president of Clairvest. He thinks the stock "is a double" in a year. Very few technology companies, he says, have ILC's fundamentals: strong cash flow, no debt, a growth market, plus a stock that has been beaten down nearly 50% this year. True, growth slowed in late 1991 and into 1992 because of the recession and overstocking by original-equipment makers of medical devices.

But that, says analyst John Girtan of the San Francisco securities firm Van Kasper, shouldn't be a worry. "ILC's lighting business will remain a nicely growing and profitable one in years to come," he says. The stock's pounding was "an overreaction to what seems only a temporary slowdown in ILC's growth rate, which should remain at least in the 15%-to-20% range," he says.

"Orders are coming back for ILC's core, high-margin Cermax high-intensity lamps," says Girtan. He sees earnings rising from 98¢ in 1991 to \$1.05 a share for the fiscal year ending Sept. 30, 1992, and to \$1.25 in 1993.

JUICED UP OVER A NEW BATTERY

Do we need another kind of automotive battery? General Motors thinks so. The giant auto maker, at least, believes it's worth investing \$20 million in Valence Technology, which has developed a proprietary solid-state lithium polymer battery. GM's auto-parts division, Delco Remy, has just signed a three-year, \$20 million research and development pact with Valence to develop the battery.

"It's a revolutionary battery that has significant price and performance advantages over both existing and emerging technologies," says analyst Thomas Lloyd-Butler of Montgomery Securities in San Francisco. The battery, he explains, is three to four times more powerful than existing ones and can be produced at a significantly lower cost than available batteries. While existing batteries use the traditional liquid electrolyte, the solid-polymer electrolyte used in the Valence battery makes the product lighter and much safer, he adds. Delco placed an initial \$350,000 order for a limited number of the batteries, to be shipped in August.

Whispers are that a major communications company will sign a \$100 million strategic alliance pact with Valence in a month or so. That company may also buy an equity stake. Valence Chairman Lev Dawson, who owns 47% of the stock, says serious talks are going on but refused to be specific.

Valence went public on May 7 at \$8, and hit 10 in a month. It has since pulled back to 9 1/4 on July 29. Such institutional investors as Putnam Cos. and Wellington Management were buyers. Lloyd-Butler says Valence will be in the red through the end of 1994, but he sees earnings of 75¢ in 1995, \$1.50 in 1996, and \$3.25 in 1997.

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Ross Perot after his July 16 withdrawal from the Presidential race

Of course, Ross Perot doesn't really have to worry about how he'll pay his bills.

He made a fortune by buying Electronic Data Systems Corp. into a computer-services powerhouse and then selling it to General Motors Corp. for \$2.6 billion in 1984. But he does have a lucrative project to occupy his time. Perot Systems Corp., which he founded four years ago, is growing almost as fast as his 800 lines are multiplying. The builder of

from computer systems landed more than \$1 billion in new business in the past six months, including major contracts in Europe (table). Merrill Lynch & analyst Stephen McClellan estimates that Perot Systems' revenues will hit \$100 million this year and grow 20% annually in the next several years.



ONE EYE WAS ALWAYS ON THE COMPANY

As an entrepreneur, at least, Ross Perot is riding high. Indeed, Perot Systems, in Herndon, Va., is doing so well that it may attempt an initial public offering as soon as next year. McClellan says the company is already profitable. Assuming a valuation of three times the projected 1993 revenues of \$250 million, McClellan calculates that Perot's current 40% stake would be worth \$300 million after an IPO. Employees own the remaining 60% of the shares.

DYNAMIC DUO. Even during the campaign, Perot talked nearly every day with Perot Systems President J. Patrick Horner. Also mixing business and politics was Morton H. Meyerson, Perot's campaign adviser, who has served since June 1 as chairman and CEO of Perot Systems. Meyerson is known as the operations and strategy whiz, while Perot is the supersalesman. "They're like Butch Cassidy and the Sundance Kid," says Graham S. Kemp, president of market researcher G2 Research Inc. in Mountain View, Calif. The pair ran both the cam-

paigned and the company until July 16, when Perot unexpectedly pulled the plug on his political career.

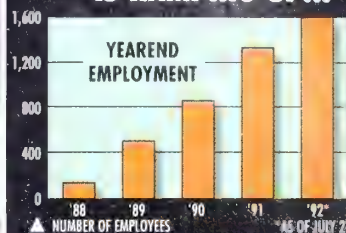
The duo didn't miss a beat. Just two days after Perot folded his campaign, Meyerson presided over a board meeting at a Dallas hotel. While Perot was elsewhere trying to mollify ex-volunteers, Meyerson laid out an ambitious scheme to delve into customers' business strategies and then create elaborate, customized information networks that give them an edge over their competitors.

The company's original mission was more modest. It was to be simply a systems integrator, weaving varied brands of computers and software into seamless networks. Then, the company expanded into "outsourcing"—taking over the actual operation of its customers' information systems. Now, in stage three, it's aiming to convert those information systems from costly tools into profit-making weapons. How? By using computers for such jobs as constantly tracking inventories and spotting opportunities by crunching up-to-the-minute data. Retailers could instantly learn, for example, that yellow juicers sold well in Florida yesterday while the 2-for-1 special on paint was a bust in the Midwest.

By creating strategic systems on inexpensive personal computers rather than mainframes—as EDS has often done—Meyerson hopes to expand the market. A 21-year veteran of EDS, he became a reborn believer in personal computers after consulting for personal-computer maker Dell Computer Corp. Similar to Canada's Systemhouse Ltd., Perot Systems now promotes PC expertise as its advantage over market leader EDS.

A \$450 million deal with Paris-based

PEROT SYSTEMS IS RAMPING UP...



...AS NEW BUSINESS KEEPS COMING

	Revenues* (millions)	Contract (years)	Date signed
EUROCAR	\$450	10	Feb.
EAST MIDLANDS ELECTRICITY	\$650	12	Apr.
VOLKSWAGEN OF AMERICA	\$100	10	May

DATA: CUSTOMERS, PEROT SYSTEMS CORP.

*PROJECTED

rental-car giant Europcar will be the first test of the new Perot Systems strategy. Perot Systems will revamp everything from fleet management to check-in systems. Personal computers in Europcar's offices will be connected so that information about a particular customer will be available in all 2,016 European offices, rather than only the office where the customer rents a car. That will save minutes at pickup and drop-off. Europcar, relieved from running its own network, expects to reduce the cost of information processing from 7% of its sales to 3% by 1994.

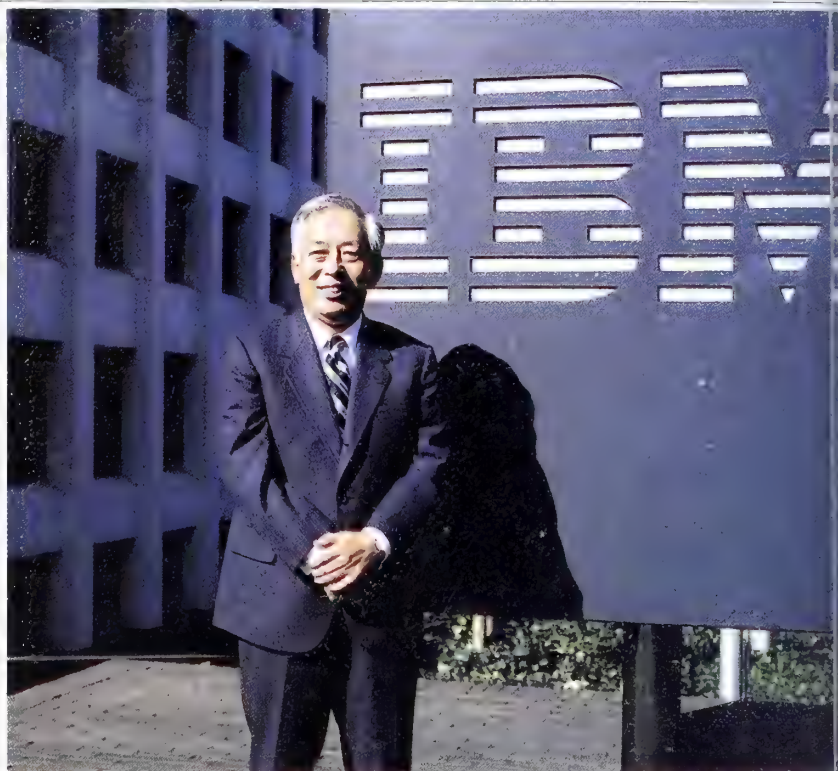
By taking over Europcar's 130-person computer staff and nine-country network, Perot Systems will gain a platform for selling computer services to other European clients. Andy Maluish, managing director for Perot Systems/Europe, says the company's goal is to garner half its revenues in the European Community by 1997, up from 25% now. According to Europcar CEO Fredy Dellis, Perot Systems beat out such heavyweights as EDS, IBM, Siemens, and European market leader Cap Gemini Sogeti. Perot flew to Paris in April to thank Dellis personally and address a Europcar convention at Euro Disneyland. Later, he joked that when he became President, there would be a red phone in the Oval Office linked directly to Europcar.

'KNOW-IT-ALLS.' Not even Ross Perot can nail down every sale. In 1990, when Continental Airlines Holdings Inc. and its System One Corp. reservation unit entertained bids for a large information-services contract, Perot Systems executives swept in like know-it-alls, recalls Richard E. Murray, System One's former chief executive. "I had to finally tell them that they were the vendor and I was the customer," Murray says. The \$2.1 billion, 10-year contract ultimately went to EDS, which offered better telecommunications.

Brashness may have its drawbacks, but advising people how to run their companies is the whole point of Perot Systems. And the take-no-prisoners aggressiveness that Perot instills has clearly been attracting customers. The company says there's no evidence that Perot's fast exit from the Presidential race has turned off any of them. Meanwhile, the ending of the campaign, says Merrill Lynch's McClellan, "eliminates a big distraction for the company."

It also allows Perot to devote more energy to his favorite pastime: making sales calls. Now, if the cartoonists would just lay off....

By Mark Lewyn in Washington, with Jonathan B. Levine in Paris and Wendy Zellner in Dallas



IBM JAPAN PRESIDENT SHIINA: HE'S BENT ON MAKING BLUNDERS A THING OF THE PAST

IBM TURNS TOUGHER IN TOKYO

Savvier services and joint ventures to counter a lackluster record

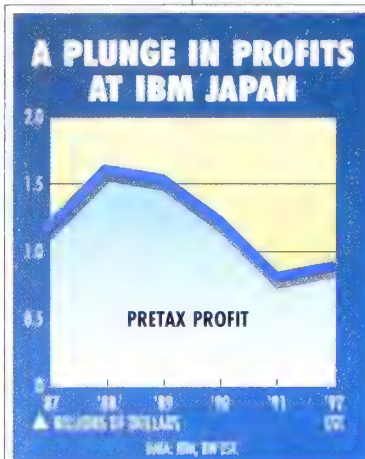
Japan's economy is slumping, its companies are slashing spending, its computer makers are suffering huge profit declines. And IBM Japan Ltd.? The \$10.2 billion subsidiary reports only yearly results, but officials there say 1992's first half showed gains in both sales and earnings—a big change from recent troubled years.

So, is IBM's largest overseas subsidiary finally turning the corner? Sort of. "IBMJ is taking steps in the right direction," says Yuji Ogino, president of market researcher IDC Japan Ltd. He reckons that the subsidiary's sales are up 4% so far this year, behind the 6.4% gain for all of IBM. And

IBMJ profits, while more difficult to estimate, are growing once again, he figures. "It will take them two or three years to really turn around," Ogino says.

Any upward trend at IBM Japan is important, because what's good for the

subsidiary is vitally important for IBM as a whole, which counts for 11% of IBM's global sales and serves as an owner in one of the world's most fertile and competitive markets. IBM is responsible for developing and manufacturing laptop computers and small island drives for IBM worldwide. It's also credited for new strategies, including help to sell services and form alliances for key



es: IBMJ helped create one joint re with Toshiba Corp. to build color crystal displays and another for ry chips that will also include Ger- s Siemens. IBM Japan also keeps e pressure on some of Big Blue's otent global competitors in their market (chart).

new vitality at IBMJ can be traced arrival in Tokyo 18 months ago of . Lautenbach, president of IBM Trade Asia Corp., to which IBMJ s. Chairman John F. Akers had ied the Japanese unit as being in f special attention. "I was sent to r business going again," says the younger brother of Terry R. Lau- h, head of IBM U.S.

new boss, formerly in charge of a IBM software division, has wasted me. First off, he helped IBMJ Pres- Takeo Shiina trim \$40 million from ution costs by slashing inven- and streamlining product flow. ear, IBMJ is sending 1,300 head- ers staff, about 5% of the work to bolster sales and services in ing markets. And it's shifting other employees into new soft- and sales joint ventures.

AUTONOMY. But the single dramatic step was last Decem- weeping reorganization of the ary. It coincided with Akers' ate shakeup but moved IBMJ in erent direction—and has not d in the big staff cuts that ome in the U.S. While the par- as forming semiautonomous . IBMJ consolidated product- ing groups to better serve customer requirements. A new n focuses solely on large cus- , selling everything from lap- supercomputers. Another di- concentrates on medium-size all businesses, and a third on services.

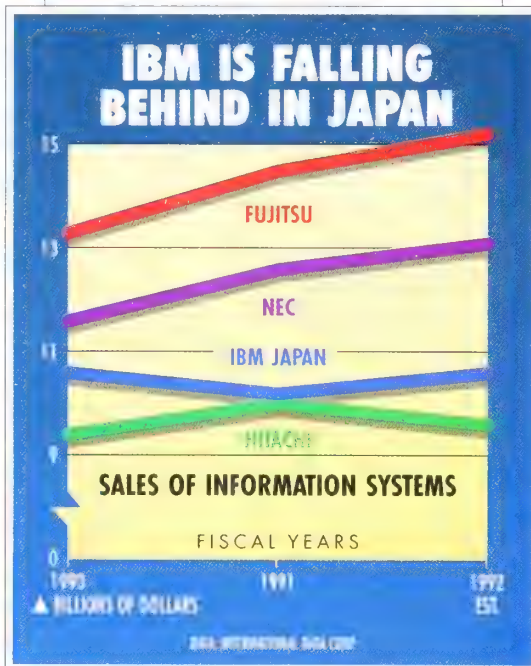
ne with Akers' decree to decen- IBM, the new marketing divisions ite autonomous. Instead of taking rom IBM World Trade, for exam- ey now set their own prices. "We ose deals at least twice as fast as ," says Tsutomu Maruyama, direc- r personal-systems operations. says he has made only 25 "major ns" this year, down from 59 a go. "I was the only guy worried the bottom line," he says. "Now, are four guys to share that sibility."

most important marketing thrust effort to broaden IBMJ's service gs. For years, the company so ated mainframe sales in Japan t could sell merely plain-vanilla re. But in the 1970s, Japanese ri- uch as Fujitsu Ltd. and Hitachi gan working closely with custom-

With a new autonomy in the marketing divisions, 'we can close deals at least twice as fast as before'

ers to create software specifically for them—at first, for no charge. IBM was largely unwilling, or unable, to respond in kind. In 1987, for example, public broadcaster Nihon Hoso Kyokai contracted with IBMJ and NEC Corp. to design a sales system. NEC met the project's 1990 deadline, but IBMJ missed it for lack of seasoned engineers and project-management skills.

Shiina, in charge of IBMJ for 17 years, says his focus on software and services



will stop such blunders and help IBM restore its lead. After dominating in mainframes in Japan, Big Blue dropped to No.3, behind Fujitsu and Hitachi in 1989. Shiina has appointed Senior Managing Director Hideki Kurashige, who plotted the latest IBMJ reorganization, to revamp its services menu.

Kurashige's major innovation is a plan for providing specific industries with customized software and services. He's setting up joint ventures with software houses and the software affiliates of certain major customers. The first, launched on July 1, addresses the distribution industry. Others will follow for manufacturing, finance, health care, and the public sector. "This idea is an IBM original and may be just what IBM Japan needed," says IDC's Ogino.

The Japanese subsidiary has already beefed up its business in the faster-

growing desktop- and laptop-computer markets. RS/6000 workstation sales, for example, are running three times ahead of 1991 sales in Japan, although from a small base. Sanwa Bank Ltd.'s order for 550 in March was IBMJ's largest ever for workstations.

Although it was late to the laptop-computer market, IBMJ is now making a splash with its PS/55 Note-N23. At \$1,344, it sells for \$240 less than its nearest competitor, a Sanyo. "Not only is it cheap, it offers better quality and support," says Masaaki Sato, a general manager at T-Zone, a computer shop in Tokyo's bustling Akihabara electronics district. Penetrating Akihabara has finally won IBMJ attention from Japan's influential personal-computer press.

IBM is also driving a wedge into NEC's dominant position in desktop PCs. IBM has organized a large group of Japanese and foreign PC makers to establish an operating-system program called DOS/V, derived from Microsoft Corp.'s DOS 5.0 in the U.S., as an alternative to the DOS version that NEC sells. Already, 15 companies sell DOS/V systems, and IBMJ's Maruyama predicts those machines will win 30% of the local market by December. DOS/V's main draw: It lets any standard IBM PC-compatible run Japanese-language software.

TOO AMERICAN? To large customers, IBMJ is furiously promoting itself as a supplier of "open" systems, which mix IBM and non-IBM gear. Says Lautenbach: "We'll do whatever it takes to solve your problem." The computer chief at a major electronics firm is convinced: "It's no longer 'IBM or nothing.' There's been a change in [IBM's] thinking."

Still, some critics believe that IBM Japan may be too American for its own good. "They don't have the flexibility of a Fujitsu, which relies on a huge base of subsidiaries, outside dealers, and subcontractors," says one Tokyo computer consultant. That makes Fujitsu a nimbler foe. IBMJ is moving in the right direction, he agrees, but a bit timidly. "Now would be the time to kill Fujitsu," whose earnings are down 69%, "but IBM Japan doesn't have the management structure or system to do that," says the consultant. The IBMJ work force, he believes, still lacks sufficient fighting spirit.

Predictably, Lautenbach disagrees. The restructuring, he says, "has been like turning on faucets of energy" throughout the company. "I feel very positive about our business in Japan today," he says. Until more persuasive figures show up, though, no one will know how permanent IBM Japan's seeming turnaround really is.

By Robert Neff in Tokyo



WHAT BARRY MARSHALL KNEW IN HIS GUT

Now, research is backing up his theory that germs cause ulcers

It took a decade, but Dr. Barry J. Marshall has launched a medical revolution. As an obscure Australian doctor, Marshall startled his profession in 1983 by contending that ulcers and other stomach ills were caused not by stress but by a mysterious, spiral-shaped bacterium. "The idea was considered completely crazy," says David Alpers, chief of gastroenterology at Washington University in St. Louis—in part because Marshall and his colleague J. Robin Warren, a pathologist at Australia's Royal Perth Hospital, could show only that people with ulcers harbored the bacteria, not that the germs actually caused disease. By June, 1984, Marshall was so desperate to prove his point that he acted as his own guinea pig: He swallowed a foul-tasting concoction containing the microbe and came down with a roaring case of stomach inflammation, or gastritis, the precursor to ulcers.

The experiment "certainly got people's attention," says Dr. Walter L. Peterson, a gastroenterologist at the University of Texas Southwestern Medical School in Dallas. It fed Marshall's reputation as a scientific rebel. And it helped stimulate new research that has recently accumu-

lated overwhelming evidence for the link between bacteria and ulcers. New studies at Stanford and other universities also provide strong evidence that the germ, *H. pylori*, is a major factor in causing stomach cancer. Nowadays, "people who don't accept the idea that this bacterium causes disease are either stubborn or uninformed," says Dr. Martin J. Blaser, a professor of medicine at Vanderbilt University School of Medicine.

In fact, the latest results threaten to transform a lucrative corner of medicine, the \$6 billion-a-year world market for ulcer drugs. In the U.S. alone, at least four million people buy such remedies, which reduce acid levels and let stomach and intestinal sores heal. Once treatment is stopped, as many as 80% of ulcers recur, forcing patients to keep taking medicine to control their ailment.

Now, however, thousands of doctors across the country—although still a mi-

nority—are starting to treat ulcers and gastritis with antibiotics instead of traditional drugs as SmithKline Beecham's Tagamet. Eventually, "the maintenance market for ulcer drugs will appear," Marshall predicts. Executives at pharmaceutical companies such as Britain's Glaxo Holdings and Sweden's Astra doubt that. But they're racing to augment their existing ulcer drugs with ones that kill the bacterium. Working on the germ is also helping scientists learn more on the causes of stomach and intestinal diseases. One new theory is that infection with the microbe in childhood could prevent the stomach from developing normal adult levels of acid, increasing the risk of gastric cancer. When infection occurs later in life, so researchers believe, toxins and enzymes produced by the microbe increase the chances of gastritis and ulcers.

'I WAS A NOBODY.' Such theories earned sweet vindication for Marshall, 40, who used to be widely criticized both for his evangelical fervor with which he pitched the bacterium-ulcer theory and for his counterattacks on skeptics. Gastroenterologist Nicholas J. Talley of the Mayo Clinic recalls that Marshall's sweeping assertions and combative style alienated the very experts he wanted to persuade. "He didn't need to claim that the bacteria caused every stomach and intestinal disease known to man," says Talley. "Many people were skeptical because of the way he presented it."

Marshall says he had little choice if he wanted to make sure his views were heard. "I was a nobody," he says. "If you have something out of the blue, you have to promote it a bit." Now professor of gastroenterology at the University of

Virginia, he has toned down his broadsides. "He's mellowed," says a University of Texas colleague, Peterson. "I guess that's the confidence that comes from being right."

Still, Marshall is not completely soft on his touch for controversy. These days, the medical debate over ulcers centers on at what stage sufferers should be treated for the germ. Marshall advocates giving all patients a two- or three-week regimen of antibiotics and bismuth, a substance found in such over-the-counter products as Pepto-Bismol. This, he contends, is the best way to cure not only ulcers but also gastritis and many types of indigestion.

New research seems to back him up.

THE LEADING ULCER DRUGS

ANNUAL SALES	
GLAXO'S ZANTAC	\$3.2 Billion
SMITHKLINE BEECHAM'S TAGAMET	\$1.2 Billion
ASTRA'S LOSEC	\$650 Million
MERCK'S PEPICID	\$595 Million
DATA: HKS & CO	

atists at Baylor College of Medicine
ouston announced on May 1 that H.
ri disappeared in 55 of 62 ulcer pa-
s treated with antibiotics and that
suffered no relapses for a year. By
rast, three-quarters of the 47 pa-
s given just Zantac, Glaxo's drug,
relapses. On July 27, the National
tutes of Health held a meeting to
ss what further research was need-
Still, most stomach specialists don't
antibiotics for routine ulcers, since
have unpleasant side effects, such
diarrhea. While eradicating the mi-
might be advisable in severe
s, declares Alpers, treating everyone
way is "overkill."

FAUNA. Drug companies insist that
shall is wrong, but their research
ions don't act like it. Sweden's As-
nas reported tantalizing if inconsis-
results with a treatment combining
acid-reducing drug, Losec, with anti-
tics. Glaxo is performing full-scale
al trials with a drug made up of
ac and bismuth. "We are continuing
ok for new therapies," says Dr.
ne D. Webb, head of Glaxo's gastro-
rology clinical research. Indeed, pri-
ary treatments to kill H. pylori
l be a boon to SmithKline and
o, since patents on their current ul-
drugs expire in 1994 and 2002, re-
tively. "The financial rewards for
panies are great," says Talley.

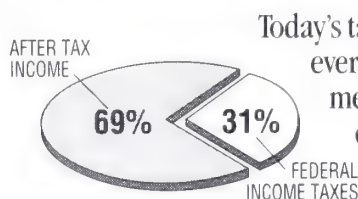
en if wiping out H. pylori becomes
standard treatment for ulcers, Mar-
won't be entirely satisfied. Scien-
have now shown that the microbe is
ngly widespread. Some 25% of all
icans harbor thriving colonies of
nd 50% will have it by age 50. The
s are even higher for people in devel-
g countries. To many scientists, this
ests that, for most of the time, H.
ri is just another innocent member
e human gut's lush microbial fauna.
Marshall, however, has a more dra-
ic and worrisome theory. Fully half
hose infected will come down with
ach or intestinal diseases, he pre-
s. If he's right, eradicating the germ
apparently healthy people would pre-
illions of cases of ulcers, gastritis,
maybe even stomach cancer—the
2 cancer killer in the world.

his critics, such a bold pronounce-
is vintage Marshall: both prema-
and unscientific. "We need to wait
re treating everybody," says the
o Clinic's Talley. "We don't know
f only some people need treatment."
shall counters that waiting for un-
vocal proof doesn't help patients.
t's important "is having people get
er, not how scientific you are," he
ures. Once again, he's ahead of the
nce. But he was right once, so no
s ready to count him out this time.
By John Carey in Charlottesville, Va.

TAX STRATEGIES FROM FIDELITY

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rate. Performance figures are historical and total return includes change in share price, reinvestment of divi-
dends and capital gains and the effect of the \$5 account closeout fee on an average size account. You may have a
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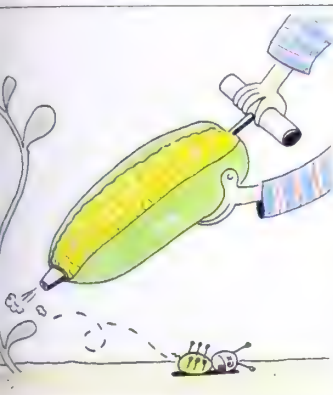
SEPTEMBER 16-17, 1992, MCGRAW-HILL HEADQUARTERS, ROCKEFELLER CENTER, NEW YORK

BusinessWeek

Developments to Watch

BY WILLIAM D. MARBACH AND NAOMI FREUNDLICH

BUG SPRAY + STICKUM = LESS POLLUTION



Pesticides are a cornerstone of modern agriculture, but they can wreak environmental havoc. The chemicals wash into streams, kill beneficial bugs, and eventually fail when insects develop resistance to them. So scientists are searching for new ways to fight voracious pests. At the Agriculture Dept.'s Agricultural Research Service lab in

Ariz., researchers have perfected one promising approach. The idea is simple: Mix insecticides with starch or corn flour to produce tiny, gooey lumps. Unlike pesticides that quickly wash off the plants they are supposed to protect, these sticky lumps "will adhere to foliage even in a rainstorm," says Michael McGuire, an Agriculture Dept. researcher. As a result, farmers will need to spray far less of the chemical on their fields—and less will run off to pollute groundwater or rivers. In addition, scientists can add insect attractants to the mixture, so the pesticide will act as a bait, making it even more effective. So far, Dow Chemical, American Cyanamid, and Ecogen have agreed to license the method.

RUSES THAT MAY BE IN THE HIV FAMILY

The Eighth International AIDS Conference in Amsterdam last month ignited a heated controversy over reports of at least 30 patients in the U.S. who appear to have AIDS but do not test positive for HIV. Since then, three teams of scientists have weighed in with evidence suggesting culprits. Researchers at Cornell Medical Center in New York, led by Dr. Jeffrey Laurence, studied the blood cells of five non-HIV AIDS patients. The team found evidence of a previously unknown retrovirus of the same family as HIV in blood samples from these patients, according to Stephen S. Morse, a virologist at Rockefeller University and co-author of a paper Laurence submitted to *Lancet*, a British journal. "We're quite sure it's not HIV-1, reasonably sure it's not HIV-2," says Morse.

A second group, at the Aaron Diamond AIDS Research Center, also in New York, takes issue with Laurence's work, says chief investigator John P. Moor. The Diamond researchers, headed by David Ho, say they have found a different retrovirus in their samples that is not related to HIV. Moor cautions that the team has yet to establish a connection between this new virus and AIDS. In fact, he says, when a person's immune system is suppressed, the body it can harbor all sorts of opportunistic invaders. Says Moor: "The question is, is the virus a cause or contaminant?"

At the University of California at Irvine, meanwhile, researcher Sudhir Gupta has isolated a completely different retrovirus from a 66-year-old woman with AIDS-like symptoms from her unaffected 38-year-old daughter. Critics of Gupta's work say that, while he is a careful researcher, the type of virus he claims to have found—which he calls human intracisternal retrovirus—may be the same virus found in cultures

taken from patients with other immune-system diseases, or it could also be a contaminant.

For now, most AIDS experts urge caution in interpreting all these results. "On the basis of what we know now, we can't say we are dealing with a new virus," says Dr. Anthony S. Fauci, head of the National Institutes of Health's AIDS efforts. "There have been many false starts before." Unexplained immunodeficiencies are nothing new—some are even inherited, notes William A. Haseltine, chief of the human retrovirology division at Harvard University's Dana-Farber Cancer Institute. His hunch is that researchers haven't looked hard enough for HIV-1 or other known retroviruses. Still, the questions about the risk to public health remain. "As for myself and the NIH," says Fauci, "we are assuming we are dealing with something real and something to track down very quickly."

IS EUROPE'S SPACE PROGRAM LOST IN SPACE?

Led by France, Europe has proudly clung to the hope of launching its own manned space program, independent of those of the U.S. and Russia. The centerpiece was to be a manned space shuttle, *Hermès*, due to fly in the year 2002. But severe budget realities have brought that lofty ambition down to earth. In mid-July, France shocked its allies with a demand that the European Space Agency's annual budget growth over the next several years be limited to no more than 3%. That followed earlier cuts in ESA programs resulting from the high cost of German reunification.

Now, ESA must reassess its options. The latest cutback will likely delay development indefinitely of the 13-nation consortium's Columbus space lab. Worse, the *Hermès* will almost certainly be redesigned as an unmanned spacecraft for use as a technology test bed—and even that may never see the light of day. One probable result: The ESA may push for increased cooperation with the U.S. It is already looking to see how Europe might take responsibility for developing an emergency-return space vehicle that would serve as a lifeboat for America's Freedom space station—assuming that that beleaguered project survives severe congressional scrutiny.

FIGHTING FIRE WITH ...COMPUTER MODELS

Surprisingly little is known about the dynamics of fire. Scientists at the insurance industry's Factory Mutual Research Corp. in Norwood, Mass., are tackling the mystery of how fire climbs fiber-coated walls and other surfaces—in the hope of creating a computerized model that unlocks such deadly secrets.

Taking precise calculations of heat, burn rates, gas release, and other traits, researchers feed the results into computer models that simulate fire's spread up walls and across rooms, says Ronald L. Alpert, manager of FMRC's fire and explosion research. The work is still in its infancy, but Alpert says large-scale models might one day predict how fire behaves in entire office buildings or warehouses.



CUSHIONING THE RISKS OF COMMODITIES

For years, John Beviacqua, 50, believed that buying stocks was the smart, safe way to invest for retirement. But after the 1987 crash erased more than \$15,000 of his portfolio, the chief financial officer for data processing firm RCG/Pro-Access decided to rethink his strategy. Today, he has 45% of his portfolio in an investment he considers even smarter and safer than stocks: commodities funds.

That's right. Although commodities—or futures, to use the more modern term—are notoriously risky if you trade them yourself, Beviacqua and a growing horde of investors are putting their faith in professionally managed funds. These investments give individuals access to the potentially lucrative—yet volatile—futures markets for as little as \$2,000. "People are afraid of commodities. I'm afraid of commodities," says Beviacqua. "But not with a good manager out there."

Even with professional management, though, futures funds are highly speculative. In most cases, investors are advised to place no more than 5% to 10% of their total portfolio in such funds, and they should be able to withstand heavy losses of principal. Commodities are also not a game for people who need instant access to their money, such as retirees dependent on a



steady income stream. Careful investors can protect themselves to some extent by choosing managers with long, proven track records. They can even turn to guaranteed funds that offer lower rates of return but pledge to refund the investor's original outlay, no matter what the trading results.

A lot of investors think the

possible rewards are worth the risks. Futures funds have attracted more than \$21 billion, nearly three times as much as they contained before the 1987 stock market crash, according to the Managed Futures Assn. That's still only a fraction of the \$350 billion in stock mutual funds, but the dollars keep flowing in.

For most of the year, funds have traded miserably, losing more than 10% of their value. But they turned around smartly in June, when fund managers found more making opportunities in currencies and interest rates. "Some managers who have been taking a beating in the last few months are currently seeing 10% and 12% returns," says Leon Rose, publisher of *Managed Account Reports*, a newsletter that tracks fund performance. "That only bodes well for commodity funds," he says. Still, perhaps more than other investments, commodity performance is difficult to predict because markets move so quickly and the futures trade in such a variety of products.

LOSS LIMIT. Futures funds offer a number of advantages. Investors get the huge potential upside of trading commodities, but unlike speculators, they often buy futures on margin, their losses are limited only to the amount they actually invest. They get a investment vehicle that typically moves independently of stocks. That can be an appealing feature at a time when the stock market's gear appears stuck between neutral and reverse. They can get an attractive performance record, with a number of fund managers posting an annual return of 15% or more over the last 10 years,

aged Account Reports. Stock prices, meanwhile, have depreciated by about 14% per year during that period.

Mainstream brokerage firms such as Merrill Lynch, Paine, Witter Reynolds, and Parson Lehman Brothers are all backed funds in recent years with low costs of operation. But those investors are beginning to risk a bit more and are choosing another option: private investments available to groups of 35 or fewer people. Each can put up a minimum of, say, \$5,000 to \$10,000. Pension funds and other institutions have started buying into managed funds, but it still remains a business dominated by retail investors who supply more than two-thirds of the money and put less than 10% of their investment capital into commodities.

Choosing the right fund requires some work, such as perusal of offering documents that typically run more than 100 pages. The most important investor checkpoint is the name of the trading adviser—the person or people who actually make trading decisions. The trading adviser's history should show a record of reasonable profits, with no more than 25% in any given year, and a consistent growth in assets under management. For example, RBC Inc., which manages more than \$50 million in fund assets, specializes in futures on foreign financial instruments. In the last three years, RBC has shown a 61% compounded annual return, with a one-month loss no bigger than 14.5%, and never no worse than a 26% loss in any one year.

REASONABLE FEES. Sometimes, the trading adviser's impact can be hard to estimate because the advisers hire more than one. "It's become reasonable to have 8 or 10 trading advisers invested in one fund," says John Alban Jr., president of Pragma, a trading advisory firm. "Sometimes, it's hard to know who's getting what to whom."

THE CONTRACTS BEHIND THE FUTURES FUNDS

AGRICULTURALS

Range from soybeans to wheat to pork bellies to orange juice. Prices tend to move based on weather, trade policy, consumption, and international crops

CURRENCIES

Investors speculate on the future value of the dollar vs. German marks, Japanese yen, Swiss francs, and others

ENERGY

Crude oil, heating oil, and gasoline are the most popular. Weather, wars, and inflation make these markets move

INTEREST RATES

Sensitive to all manner of economic news and to actions by the world's central banks. Eurodollar futures are tied to short-term rates charged on funds deposited overseas. Treasury-bond futures are tied to the U.S. government's 30-year bond

PRECIOUS METALS

Silver, gold, platinum. One of the sleepest games around in recent years. May take a resurgence in inflation to wake them up

STOCKS

Available on the Standard & Poor's 500 or other stock indexes. Enable fund managers to bet on the future course of a big basket of stocks in a single leveraged transaction

DATA: BW

Fees charged by the brokerage firm and the trading adviser should be reasonable—say, a 4% up-front sales load, a 1% guaranteed management fee, and an incentive fee of 1% to 3% of trading profits. And conditions for withdrawal of funds, or "redemptions," should be clearly stated and allow investors to receive their money in a timely manner.

Unlike open-end mutual

funds, in which investors can buy or sell shares on an on-going basis as market conditions change, most commodity funds are closed-end. Once the funds start trading, new investors are no longer welcome. That means investors must make their decision about buying into a fund up front, based on the past performance of the trading advisers. Investors in private pools can sell their stakes,

but arranging such transactions can be a touch-and-go proposition.

Some investors prefer funds that target particular sectors of the commodity markets. Funds that concentrate on currencies and on shifts in interest rates in foreign countries have been popular lately.

Dean Witter, for example, recently raised \$68 million for its Global Perspective Portfolio, and Shearson is currently raising money for its F1000 Guarantee Fund XIX. But many fund managers believe that targeted funds unnecessarily limit trading options. "From our perspective, we are futures traders, whether it's currencies, grains, interest rates, metals, or whatever," declares Alan Kaufman, senior vice-president of Mt. Lucas Management, an investment firm based in Princeton, N.J.

ERRATIC PERFORMANCE. Whatever their target, all commodity funds are likely to show an erratic performance that can be unsettling. Indeed, it's not uncommon for funds to shut down after losing all or most of their investors' money. "A higher degree of volatility is assumed," declares Sol Waksman, president of Barclay Trading Group, a Fairfield (Iowa) brokerage firm that tracks the performance of trading advisers. "If investors can't handle it, they should stay away from commodity funds."

Instead, those people might consider guaranteed funds, which promise a return of principal, despite market conditions. The pledge is possible because trading advisers invest about two-thirds of the fund assets in low-risk instruments such as zero-coupon bonds or Treasuries. The other third goes into the commodities markets to boost the fund's overall yield. Cost for such a promise? Less money for trading means less risk of loss—and less opportunity for double-digit gains. *David Greising*

THE RECORDS OF TOP TRADING ADVISERS

Firm	Annualized return for 5 yrs.*	Worst 2-month period	Assets under management (in millions)
ROEMER WEATHER Des Moines, Iowa	95.81%	-31%	\$13
RED OAK COMMODITY ADVISORS Saddlebrook, N.J.	81.38	-2	77
LOGOS TRADING Chicago	73.01	22	28
HOLLINGSWORTH TRADING Giddings, Tex.	72.27	-3	50
SCHNEIDER MANAGEMENT Albany, Conn.	58.76	-12	20

*Compound annual total return

DATA: BARCLAY TRADING GROUP LTD.

Personal Business

Autos

VAN HUNTING? PUT THESE ON YOUR MINI LIST

For eight years, Chrysler's minivans have out-classed the competition. But Mercury and Nissan have narrowed the gap considerably with the stylish new Villager and Quest. These nearly identical twins, assembled by Ford, are the strongest challengers yet to the Chrysler vehicles on features and performance. But they trail on availability and price.

Like Chrysler's Dodge Caravan and Plymouth Voyager, the Mercury Villager and Nissan Quest handle superbly—more like a car than a truck. And they surpass the Chrysler minivans by meeting all passenger-car safety requirements, including headrests for all seats and reinforced door beams to protect against

side-impact crashes. But the Villager and Quest won't have a driver's air bag until a year from now. On Chrysler vehicles, the air bag is standard.

The real test of a minivan's performance is how well it carts stuff around. If you've ever wrestled out the Caravan's rear seat to load up for a trip, you will be delighted by the Villager's and Quest's versatile seats, which fold down, come out, or slide forward on tracks for at least 14 different seating and cargo configurations. For example, flip down the middle and rear seats to form a table-like flat surface in back.

FEWER DEALS. Neither beats Chrysler on price, but they come fairly close depending on what options you buy. Base-model Caravans can be found with a sticker price of \$13,500, but most buyers add options that push the price

**VILLAGER: MERCURY
WILL SELL ONLY
ABOUT 70,000
A YEAR**



above \$17,000. If you want cruise control and power windows, for instance, the price tag starts at about \$18,000 for a Villager and \$18,600 for a Quest, not including taxes and destination charges. The pair differs slightly in how the features are packaged. Antilock brakes are standard on the Mercury, an option on the Nissan. And fewer cars mean fewer deals. Mercury will sell only about 70,000 Villagers and Nissan 50,000 Quests a year, against Chrysler's almost 400,000 minivans.

The Mercury/Nissan has a few minor annoyances. The lights on the air-conditioning and cruise-control buttons that signal when the features are turned on are small as to be unnoticed. And closing the far rear door requires extra effort.

However, these are no faults on an otherwise minivan. Chrysler's vehicle still offer the broadest range of prices and options. But well-packaged Villager and Quest can be very attractive alternatives. *Jim Pa*

Today's steep yield curve is at a historically sharp incline. For Treasury bond investors, the dilemma is whether to tie up money in long-term securities paying the highest rates or to go for short-term paper that pays less. And there's always concern that interest rates might spike up, sending bond prices plunging.

One solution is a bond ladder, a procedure that allows for considerable flexibility, reduces rate-spike risk, and promises full return of principal, because you hold the bonds until maturity. Since your money is in Treasuries, any fear of default is nonexistent. **EVEN SPREAD.** With a typical bond ladder, you divide your money, say \$50,000, equally over Treasuries ranging from 1-year (3.6% yield) to 10-year maturities (6.7%) at \$5,000 for

Smart Money

HOW TO BUY BONDS WITHOUT THE RATE-HIKE JITTERS

each. A bond will mature annually, which permits you to spend the cash, invest it elsewhere, or put it on another step of the ladder.

Each year, you can roll over the maturing principal into bonds at current rates. If you want the ladder to

continue into a second decade, you may put the proceeds into 10-year bonds. Or if not, reinvest in shorter-term securities. During the first of the 10 years, your interest income is \$2,770, or 5.5% overall—not too bad on your \$50,000 principal. That is the equivalent of tying up the whole sum in five-year paper.

It's not worthwhile to invest in Treasuries beyond 10 years: You're spanning most of the yield curve between 1- and 10-year issues. The difference between the two is 3.1 percentage points, while the

gap between a 10- and a 1-year Treasury (7.5% yield) is just 0.8 of a point. Besides, price volatility hurts the longest maturities most, which can be a concern if you need for cash compels you to sell your bonds early.

The bond-ladder strategy is no use to traders who sell to sell before maturity, realizing capital gains. A ladder works best for retirees or pension-paying parents who want a reliable income stream. "Bond ladders are not for a 45-year-old whose kid is far too young for college and who wants to build wealth," says Philip Sprague, editor of *Executive Wealth Advisory* newsletter.

Bond ladders require discipline. Says Jay Golding, chief investment strategist at Capital Insight, a Beverly Hills (Calif.) brokerage, "People often don't follow these automatic reinvestment systems." To make bond ladder work, you have to stay on it. *Larry L*

HOW A BOND LADDER WORKS

Invest \$5,000 each in 1- to 10-year Treasuries, hold until they're due, and collect the income

Maturity	Current yield	Income			
1	3.6%	\$180	7	6.2	310
2	4.2	210	8	6.5	325
3	4.7	235	9	6.6	330
4	5.3	265	10	6.7	335
5	5.6	280	TOTAL INCOME		\$2,770
6	6.0	300	AVERAGE YIELD FOR FIRST YEAR		5.5%

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Make Your Mark

In the eddies near the river bank, rainbow and brown trout are clearly visible, their mouths plucking insects from the gently moving water. As I step forward for my first cast with a fly rod on the Test River, one of Britain's most fabled trout streams, I recall the emotions that our guide, Jim Haddrell, warned would sweep over us novices: a desire to catch all the fish, then to catch just the biggest, and finally, the realization that fishing should be fun and relaxing, never mind the quarry.

Relaxing? That's not what comes to mind when the flyline that is supposed to drop the nearly weightless fly onto the nose of the feeding trout is, instead, looping behind me and getting caught in the dry underbrush. Never mind. I didn't really expect that years of spin-casting in lakes and oceans would equip me for fly-fishing. But with two days of intensive instruction from Haddrell and his young associate, Robin Gow, I'm determined to crack this mystifying, yet alluring, pastime.

For the novice, a couple of days of lessons is the best introduction to a bewildering array of fishing paraphernalia, the selection of flies, and technique. Ever since moving to London nine years ago, I've been fascinated by fly-fishing lore and have heard much of the special attractions of southern England's chalk streams—rich in vegetation and pure habitats for trout. The Test meanders through 40 miles of rolling Hampshire countryside, dotted with thatched-roof houses, that's no more than two hours southwest of London. It has

Outdoors

FLY-FISHING: GETTING YOUR FEET WET IN ENGLAND

been said that the Test's waters are clear as gin, and its fishing rights make it four times as expensive.

Thanks to a 40th birthday gift from my wife, I signed up with the British arm of the

provided. Other recommended two-day courses on the Test are given by Fishing Breaks (44-71-281-6737) for \$285.

For this little adventure, I'm joined by one of my oldest friends and fishing mates

you don't do it right, as I discover, the fish will rise the line. Classroom work takes in the entomology of the fly, the intricacy of tying, and how to locate a fish.

Then there's the cast. The idea is to have the line gracefully unfurl over the water, the fly touching down. We start with the basic overhead cast. "If you hear a rod swish," Haddrell says, "you're working too hard."

(At the millstream, later at the Test, I find myself working too hard too often.) We also learn the roll cast, a side version to be used if branches are lurking overhead or tough winds are blowing.

NO WHOPPER. The conditions are perfect for a weekend: hot sun and a slight breeze. On the riverbank, Haddrell stresses patience. "If they are feeding, you ought to be able to catch them," he tells us. The trick, we discover during several hours of rod work, is to keep the fly backward and forward with our casts, is to keep the fly as close to the fish as possible so the current carries it right to its mouth.

Almost as if planned with our session about to end on Sunday, a rainbow strikes my fly. Following our earlier instructions, I keep the rod tip high and pull the line in with my left hand, not using the reel. Surprisingly, the fish comes with it.

A rainbow is no whopper about the size of my extended hand. But I'm satisfied that it has all come together. A week later, Cowherd and I make our commitment to fly-fishing: We load up on rods and reels on sale at Orvis.

Rick Meyer



Using the tools of the trade (left), the writer (above, center) and members of his graduating class get ready to cast their flies upon the waters

American outdoors outfitter, Orvis (44-264-781-212). Orvis offers six weekend classes from April to August that consist of lectures in a small hut next to a millstream and fishing on the Test. The price is \$380 per weekend (9 a.m.-6 p.m. each day); equipment is

from New York, Andy Cowherd, and six Brits. Early on, we learn about presentation. To present the fly properly to the hungry trout, we must know basic knot tying, linking the fly line, which comes off the reel, to the leader, and then the leader to the fly. If

information, and Insurance-Quote compiles a detailed description of five of the lowest-priced, safest policies.

FUND FACTS. *Finding Your Way: A Guide to Mutual Fund Investing* tells how to

evaluate a fund and avoid common investor traps. The brochure is free from Shearson Lehman Brothers (800-233-7833, ext. 3838).

LITERACY LINK. The Coors Literacy Hotline (800-626-

4601) connects callers and literacy programs. The service has approximately 180 programs on file and is staffed with English- and Spanish-speaking operators seven days a week.

Worth Noting

INSURANCE HELP. Insurance-Quote Services (800-972-1104) offers free help choosing life insurance. You provide basic

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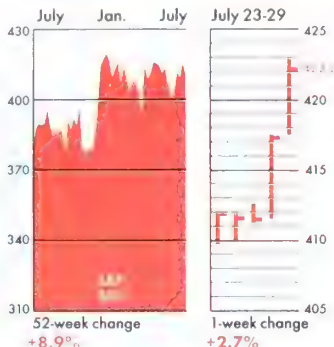


Investment Figures of the Week

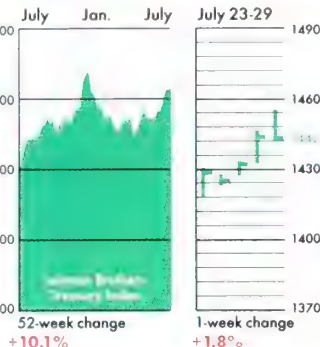
CURRENCY

Investors are glum, but investors in Japan are not. A sharp drop in consumer confidence kicked off a bond rally on July 28, lowering yields on long-term Treasury bonds 0.2 percentage points. That helped the Dow industrials up 52 points. The bond rally stalled on July 29, but stocks kept on going up an additional 45 points. The Standard & Poor's 500 even made a new high. But not even a cut in short-term interest rates could reignite Japanese stocks, which sank 100 yen last week.

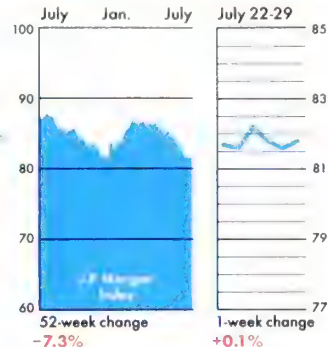
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
DOW JONES INDUSTRIALS	3379.2	3.1	11.7
DOW JONES COMPANIES (Russell 1000)	223.3	2.7	10.2
DOW JONES COMPANIES (Russell 2000)	193.0	2.1	11.7
DOW JONES COMPANIES (Russell 3000)	237.2	2.7	10.2

INTERNATIONAL STOCKS	Latest	% change (local currency) Week	% change 52-week
DOW JONES INTERNATIONAL (FINANCIAL TIMES 100)	2423.2	1.5	-6.4
DOW JONES NIKKEI INDEX	15,096.0	-2.9	-37.4
DOW JONES TOYO (TSE COMPOSITE)	3424.6	0.4	-3.2

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.25%	3.23%	5.7%
30-YEAR TREASURY BOND YIELD	7.45%	7.63%	8.3%
S&P 500 DIVIDEND YIELD	3.01%	3.04%	3.1%
S&P 500 PRICE/EARNINGS RATIO	24.6	23.4	19.7

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	410.7	410.7	Positive
Stocks above 26-week moving average	45.6%	44.0%	Neutral
Speculative sentiment: Put/call ratio	0.41	0.48	Positive
Insider sentiment: Vickers sell/buy ratio	1.85	1.87	Positive

INDUSTRY GROUPS

4-WEEK LEADERS		% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
CONSTRUCTION		20.2	50.6	PHM	45.8	101.9	26 1/4
TELECOM		12.3	23.5	REEBOK INTERNATIONAL	16.1	-1.3	27 7/8
HOSPITAL MANAGEMENT		10.3	-34.3	HUMANA	12.7	-28.8	23 3/8
PERSONAL LOANS		9.6	13.9	BENEFICIAL	11.7	19.4	64 1/2
MINING		8.9	-4.1	PLACER DOME	13.6	-13.2	11 1/2
4-WEEK LAGGARDS		% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
TRUCKING		-7.3	3.4	ROADWAY SERVICES	-9.7	20.6	58 1/2
HEAVY-DUTY TRUCKS		-5.9	17.1	DANA	-9.1	20.0	39 3/4
SEMI-TRAILERS		-5.8	7.6	STONE CONTAINER	-26.7	-10.8	18 1/2
RESTAURANTS		-5.1	30.6	MCDONALD'S	-6.4	34.7	44 1/8
RECREATION		-4.2	-4.0	BRUNSWICK	-10.3	-11.8	13 1/8

MUTUAL FUNDS

LEADERS	Week total return %	LAGGARDS	Four-week total return %
FIDELITY SELECT MEDICAL DELIVERY	10.3	DFA UNITED KINGDOM SMALL COMPANY	-10.0
FIDELITY SELECT LIFETIME EMERGING GROWTH	10.0	FIDELITY OVERSEAS	-8.7
FIDELITY SELECT INSTANT GOLD & PRECIOUS METALS	9.9	T. ROWE PRICE JAPAN	-8.4
52-week total return %		52-week total return %	
FIDELITY SELECT SAVINGS & LOAN	52.1	LEXINGTON STRATEGIC INVESTMENTS	-46.0
FIDELITY SELECT REGIONAL BANKS	47.6	UNITED SERVICES GOLD SHARES	-38.0
FIDELITY SELECT REGIONAL BANK B	46.7	G. T. JAPAN GROWTH	-30.7



RELATIVE PORTFOLIOS

Amounts sent the present of \$10,000 one year ago	Treasury bonds	U. S. stocks	Money market fund	Gold	Foreign stocks
Stages indicate total returns	\$12,112 +2.59%	\$11,143 +0.91%	\$10,375 +0.06%	\$9,871 +0.47%	\$9,601 -1.82%

1 on this page are as of market close Wednesday, July 29, 1992, unless otherwise indicated. groups include S&P 500 companies only; performance and share prices are as of market close

July 28. Mutual fund returns are as of July 24. Relative portfolios are valued as of July 28. A more detailed explanation of this page is available on request.

HOW TO KEEP FREE TRADE FROM DIVIDING US

The powerful surge in America's foreign trade has been the bright spot in an otherwise weak economy. Without it, the recession would undoubtedly have been more severe and the recovery even more anemic. Yet troubling new information indicates that free trade is driving a wedge right down the middle of the work force. The result? The U.S. is developing a pattern of income inequality that is different from anything it has ever experienced (page 48).

The brutal division between the haves and have-nots lies along an educational fault line. The losers in free trade are the 64 million workers who never went beyond high school. As trade—the sum of exports and imports—rose from less than 10% of gross national product in the late 1970s to 25% today, imports and the shift of manufacturing jobs overseas have displaced many low-skilled workers and depressed the wages of others. Employees exiled from manufacturing have fled to service industries, glutting the job market and keeping the lid on pay for lower-skilled employees across the economy. As a consequence, real wages for high school dropouts have fallen by 20% since 1979.

By contrast, free trade has benefited the 54 million workers who finished college. Their real income grew by 8% during that time. Despite the nation's fear of losing out to Japan and Europe, the part of America's work force employed in high-tech, high-information industries has done well in economic battles with First World competitors. But the bottom half of the working population has been hammered by Third World countries.

What is to be done? Invest heavily in worker training and education, the one proven pathway to higher productivity and the production of high-value-added goods and services. Slashing wages and transferring production to Mexico or China may be an interim step for companies to cut costs and

survive in a fiercely competitive world. But long-term success will go to those corporations that do more by offering quality goods, great service, speed, and low prices to customers. Only a well-trained and educated work force can embrace the kinds of total quality management, just-in-time inventory control, computerized manufacturing, team systems, and other techniques so crucial to producing goods that generate First World-level profits and sales.

Corporate America should take note. It spends only \$1 billion a year on employee training. That works out to about one-third of what Europe spends per worker. Most of the U.S. money currently goes to train managers at expensive business schools rather than to train workers at local community colleges, even though experience at Motorola and Ford, for example, shows that grass-roots employee training is what really pays off. A boost in funding and redirection of resources would go far to make the bottom half of the work force more productive and companies more competitive.

Government could play a major role by forcing changes on the public schools to boost learning and reduce the dropout rate. It could then guarantee a college education to every graduating senior through a loan program that provides education in exchange for national service. Washington can also use the tax code to reward companies that spend heavily on upgrading employee skills instead of chasing around the globe looking, as a few have, even to the gulags of China, for the cheapest source of labor. In particular, those workers might suffer as a direct consequence of the North American Free Trade Agreement deserve special attention.

A high-skills, high-wage strategy for all American employees is the best way to compete in the global economy. The alternative is a permanent class society no one wants.

SURPRISING NEWS ABOUT PATENTS

Bibliometrics is a powerful new statistical tool that analyzes patent trends, helping savvy companies plan strategic direction and benchmark themselves against competitors. It scans patents and scientific research papers to discern which ones are the most important. The analysis, done by firms such as CHI Research in Haddon Heights, N.J., and the Institute for Scientific Information in Philadelphia, spots high-tech trends, checks competitors' moves before they hit the marketplace, and helps companies plan acquisitions. Eastman Kodak Co. uses bibliometrics to follow the progress of top scientists at rival companies, checking to see if they're being moved into hot new areas of research. Philips Electronics Co. has used patent analysis to track 30 rivals in 39 fields, from software to optical recording.

A bibliometric analysis (BW—Aug. 3) of 197 companies worldwide done especially for BUSINESS WEEK shows some

surprising trends in corporate technological strengths. Japanese companies are hardly copycats any more. Of the top 10 entries overall, Japan has five, led by Toshiba. So do U.S. companies are not flat on their backs when it comes to technology. The other five in the top 10 were all American: Intel, IBM, General Motors, General Electric, and Motorola. Third, European companies are trailing badly with 12th ranking.

Bibliometrics brings to light that Ford and GM are making a dramatic comeback by increasing technological strength faster than rivals such as Honda and Toyota. Although the link between technological strength and market performance is poorly understood, Detroit has been gaining market share recently.

Bibliometrics is a potent tool and a powerful reminder of the importance of not forsaking research and development, no matter how tough the times may be.

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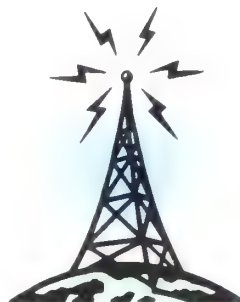
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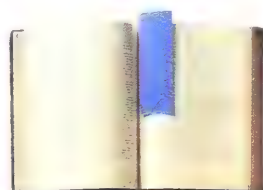
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ON THE LINE: GREGORY ARTHUR AND OTHER SATURN WORKERS IN SPRING HILL, TENN., ACT AS PARTNERS IN SOLVING QUALITY PROBLEMS

Cover Story

86 SATURN

Detroit's hottest property is running rings around rivals. Almost overnight, Saturn has become the highest-quality U. S. car, with as few defects as Honda or Nissan. Dealers can't keep showrooms stocked. But profits are still a long way off. And investing in new plants could starve other divisions. Will bureaucratic inertia keep GM from applying the Saturn formula elsewhere?

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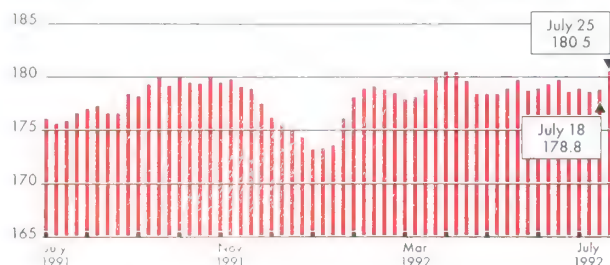
BusinessWeek Index

PRODUCTION

Change from last week: 1.0%

Change from last year: 2.2%

1967=100 (four week moving average)



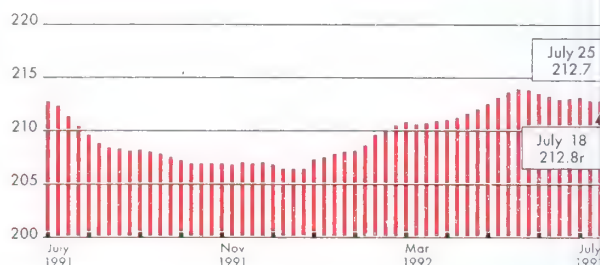
The production index rose for the week ended July 25 because the index contains stronger output data from earlier in July. In the latest week, however, seasonally adjusted output of autos and trucks plunged because of plant closings. Also down: electric-power and paper production, crude-oil refining, and rail-freight traffic. Steel, coal, paperboard, and lumber output increased. As a result, before calculation of the four-week moving average, the index fell to 177.1 from 183.2.

BW production index copyright 1992 by McGraw-Hill Inc

LEADING

Change from last week: 0.0%

Change from last year: 1.1%



The leading index was virtually unchanged in the week ended July 25. Low stock prices and further deterioration in the growth rates of both real estate loans and M2 money growth offset the positive indicators of slightly lower bond yields, faster growth in materials prices, and a drop in the number of business failures. Before calculation of the four-week moving average, the index dropped to 212.3 from 212.4 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (8/1) thous. of net tons	1,742	1,753#	6.8
AUTOS (8/1) units	64,128	67,744r#	-16.1
TRUCKS (8/1) units	49,292	43,227r#	18.3
ELECTRIC POWER (8/1) millions of kilowatt-hours	65,652	64,032#	2.8
CRUDE-OIL REFINING (8/1) thous. of bbl./day	13,810	13,988#	1.6
COAL (7/25) thous. of net tons	18,623#	17,769	-7.1
PAPERBOARD (7/25) thous. of tons	821.0#	804.3r	3.8
PAPER (7/25) thous. of tons	757.0#	745.0r	-0.8
LUMBER (7/25) millions of ft	487.5#	479.7	-7.7
RAIL FREIGHT (7/25) billions of ton-miles	20.4#	20.4	4.1

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFP, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (8/5)	127	128	136
GERMAN MARK (8/5)	1.48	1.48	1.72
BRITISH POUND (8/5)	1.92	1.92	1.70
FRENCH FRANC (8/5)	4.99	5.00	5.85
CANADIAN DOLLAR (8/5)	1.18	1.19	1.15
SWISS FRANC (8/5)	1.32	1.32	1.50
MEXICAN PESO (8/5)	3,094	3,098	3,034

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (8/5) \$/troy oz	350.750	358.200	-1.7
STEEL SCRAP (8/4) #1 heavy, \$/ton	88.50	88.50	-5.9
FOODSTUFFS (8/3) index, 1967=100	197.7	198.6	-3.7
COPPER (8/1) ¢/lb	119.1	120.1	13.3
ALUMINUM (8/1) ¢/lb	60.9	61.0	4.1
WHEAT (8/1) #2 hard, \$/bu.	3.40	3.51	10.4
COTTON (8/1) strict low middling 1-1/16 in., ¢/lb.	59.61	61.08	-13.8

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (7/31) S&P 500	419.88	412.42	
CORPORATE BOND YIELD, Aaa (7/31)	8.01%	8.06%	
INDUSTRIAL MATERIALS PRICES (7/31)	98.9	98.5	
BUSINESS FAILURES (7/24)	357	391	
REAL ESTATE LOANS (7/22) billions	\$397.6	\$398.4r	
MONEY SUPPLY, M2 (7/20) billions	\$3,404.6	\$3,404.8r	
INITIAL CLAIMS, UNEMPLOYMENT (7/18) thous	400	421r	

Sources: Standard & Poor's, Moody's, Journal of Commerce (index: 1980=100), Dun & Street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
CONSTR. SPENDING (June) annual rate, billions	\$416.9	\$423.4r	
12 LEADING INDICATORS COMPOSITE (June) index	149.6	149.9r	
PERSONAL INCOME (June) annual rate, billions	\$5,024.8	\$5,026.3r	
MANUFACTURERS' INVENTORIES (June) billions	\$382.8	\$383.3r	

Sources: Census Bureau, Commerce Dept

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (7/20)	\$961.6	\$956.9r	
BANKS' BUSINESS LOANS (7/22)	277.5	279.5r	
FREE RESERVES (7/22)	742	590r	
NONFINANCIAL COMMERCIAL PAPER (7/22)	140.6	143.0	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (8/4)	3.28%	3.27%	5.1
PRIME (8/5)	6.00	6.00	8.1
COMMERCIAL PAPER 3-MONTH (8/4)	3.39	3.38	5.1
CERTIFICATES OF DEPOSIT 3-MONTH (8/5)	3.32	3.30	5.1
EURODOLLAR 3-MONTH (8/1)	3.31	3.31	5.1

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value. NA=Not available. r=revised. NM=Not meaningful.

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MERCK: PROSCAR DOES WHAT IT'S DESIGNED TO DO

Your article about Proscar, Merck's new drug for symptomatic benign prostate enlargement ("Critics are gang- ing up on Merck's new wonder drug," Top of the News, July 20), does not fully reflect Merck's knowledge about the drug's efficiency and safety. In fact, several questions raised by the article are answered in the prescribing information for doctors, which was not widely available at the time of publication.

The comments about effectiveness lose sight of what Proscar is designed to do: lower the levels of the key hormone that contributes to prostate enlargement in aging men. Treatment leads to rapid shrinkage of the enlarged gland in most patients. Some patients additionally experience increases in urine flow and symptom relief. Shrinkage of the gland and symptom and urine flow improvements appear to be sustained for as long as two years in patients who have chosen to continue taking Proscar.

Another topic is the effect of Proscar on PSA (prostate-specific antigen). This protein, which is released into the blood by the prostate, is a marker of prostate size or activity. Elevations in PSA may be linked to prostate cancer, and PSA testing is increasingly being used as one of several tools for the diagnosis of prostate cancer.

Since Proscar lowers blood levels of PSA, the prescribing information for doctors points out that rectal exams and other tests for prostate cancer should be carried out before any man begins treatment with Proscar and periodically after that. Doctors are also cautioned to check into any sustained increases in PSA levels in patients taking Proscar.

From the clinical trials in over 1,600 patients, it does not appear that Proscar altered the rate of prostate cancer detection. Our hope is that the continued monitoring of patients taking Proscar will improve their rate of early cancer detection. On the other hand, it should be understood that Proscar is not indicated to treat prostate cancer.

Our data on the effects of Proscar on PSA and prostate cancer were reviewed

in detail to the satisfaction of the Food & Drug Administration and international regulatory authorities, including those in Britain, France, and Italy, where Proscar is approved.

Dr. Louis M. Sherwood
 Senior Vice-President
 Medical & Scientific Affairs
 U.S. Human Health Div.
 Merck & Co.
 West Point, Pa.

THE BETTER ALTERNATIVE FUEL? PICKENS PICKS NATURAL GAS

When it comes to ethanol, your story "Big stink on the farm" (Top of the News, July 20) does a good job of pointing out that the American public is getting "shucked."

As a transportation fuel, ethanol is more expensive, does almost nothing to reduce pollution, and because it's mixed with gasoline, it does little to reduce this country's dependence on foreign oil. As your story indicates, as an alternative fuel, ethanol is a lose-lose proposition.

While there are many alternative fuels vying for a share of the transportation market as a result of the Clean Air Act, there's only one superior fuel: natural gas. It's the only one that is available in abundant supply in the U.S., reduces pollution by more than 90%, is safer than gasoline, and costs about half as much as gasoline on a gallon-equivalent basis. Now that's a win-win fuel.

Boone Pickens
 Chairman
 Mesa Inc.
 Dallas

BECKER IS SHORTSIGHTED ON GLOBAL WARMING

Gary Becker's myopic view is an example of the thinking that has caused current economic malaise ("On global warming, let the coolest heads prevail," Economic Viewpoint, July 20). The global-warming phenomenon will never be proven to everyone's satisfaction, but taking actions to cut CO₂ emissions, most of which are energy-related, would have far-reaching benefits even if they don't affect the climate.

For instance, aggressive energy con-

BUSINESS WEEK
 AUGUST 17, 1992 *** 3279
 ISSN 0007-7135



Published weekly, except for one issue in January, by McGraw-Hill Inc. Founder: James H. McGraw (1860-1948)
 President: Editorial: Catherine and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020
 Telephone: (212) 512-2000; Domestic Telex: 177500; International Telex: 32265; Cable: McGraw-Hill New York, TWX: 710-551-1579
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Readers Report

servation would reduce oil imports, eliminate the nation's trade deficit, search into photovoltaics and other efficient energy-production technology might allow the U.S. to recapture a lead in those technologies and the accompanying jobs. We will get more per government dollar by redirecting our infrastructure investments to mass transit. Energy-efficient lighting and architecture will cut housing and business costs. If the air pollution associated with CO₂ emissions were reduced, so would health costs. To ignore the benefits of actions like these is to condemn the U.S. to being a technological follower with unnecessary fixed costs.

Arthur S. Mer
Colchester, C

PUTTING THE DEFICIT IN PERSPECTIVE

Robert Kuttner's article "Don't worry so much about the budget deficit" (Economic Viewpoint, July 6) overstates the importance of the savings and bailout in this year's federal budget picture. Actual outlays for the Resolution Trust Corp. and other deposit insurers in the first eight months of the fiscal year (from the *Monthly Treasury Statement* through May 31, 1992) were under \$8 billion—a far cry from the \$1 billion the article cites as likely for the year as a whole.

It may come as a surprise that they alone ran a small surplus of \$417 million during the eight months, as the proceeds of asset sales exceeded new expenditures. The eight-month federal deficit, excluding the cost of the thrift bailout, was a sturdy \$224 billion.

I have no argument with the notion that a panicky solution to reducing the deficit could cause considerable harm. The gradual solution we might hope for, however, should address the fact that spending for entitlements seems out of control. The Administration has estimated that such outlays will rise by 22% a year.

C. Heather Dillens
Senior Vice-President
U.S. Trust
New York

Kudos to Robert Kuttner for challenging the unwarranted publication that continued federal budget deficits will precipitate eventual economic ruin. So long as the budget deficit continues trending downward in proportion to the economy, our national debt will follow suit. That's what really counts. The real tragedy of our fixation on a balanced federal budget is that it diverts our attention from the true source



REINVENTING AMERICA

There's a New World to be explored, and America's scientists and engineers are the pioneers. How American innovation and productivity can stay ahead are just two of the subjects covered in Reinventing America, the fall 1992 bonus issue from Business Week. It's where American business will see the world from the cutting edge. Let them see your advertising as well. Contact Karl Spangenberg, Sr.VP/ Advertising Sales, at (212) 512-4154 or your Business Week account manager.

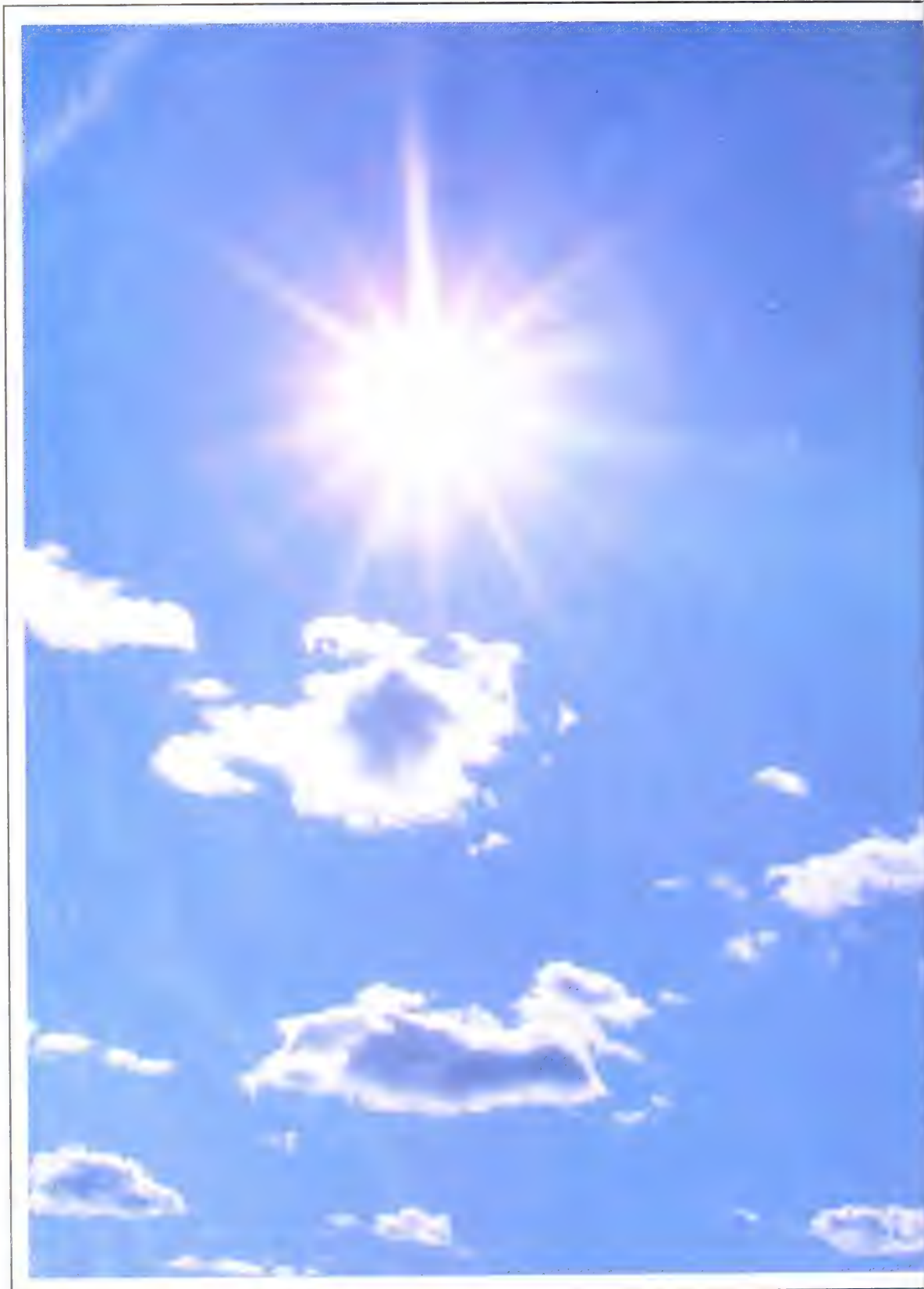
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Readers Report

our anger: pervasive waste, inefficiency and ineffectiveness built into our current system of government.

David B. Pollock
Moorpark, CA

I am very happy that Robert Kutler does not balance my checking account. I wonder how he balances his own.

Larry J. Gist
President
Gist Enterprises
National City, OH

CLEARING THE AIR OVER A KEY CIGARETTE TRIAL

In response to your article on the recent Supreme Court decision regarding tobacco industry liability ("This decision may be hazardous to tobacco health," Top of the News, July 6): The jury award of \$400,000 in the Thomas Cipollone case was reversed on appeal and remanded for a new trial because the jury was improperly instructed.

The Cipollone case was originally based on a claim of fraud and misrepresentation similar to that which the U.S. Supreme Court said the Cipollone family can raise in a new trial. The claim was decided in favor of the defendants.

The federal judge in Newark, N.J. (not New York City), did not order tobacco defendants to "hand over 50 pages of evidence concerning the Council for Tobacco Research...." The defendants were ordered to hand over documents (50 pages). You correctly point out that the Third Circuit Court of Appeals has been asked by the defendants to reverse that order.

And finally, with regard to the statement that the judge agreed that the industry's claim that it was sponsoring independent research was a fraud, it should be pointed out that only a jury can decide that factual determination, and, as previously noted, a similar claim was rejected by the jury in the first trial.

George L. Berman
Vice-President
Public Affairs
Philip Morris Inc.
New York, NY

Editor's note: Some 1,489 pages of documents were referred to a special master of the court to determine whether they met the legal test for relevance to the plaintiffs' case.

Letters to the Editor should be sent to Reader Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax: (212) 512-1000. Telex: 12-7960. Intl. 4998204. All letters must include an address and daytime and evening phone numbers. We reserve the right to edit for clarity and space.

By air

*To the People
of the free world*



THE PEOPLE OF FREE KUWAIT

August 2, 1992

To the People of the free world

It cannot be seen, touched or valued, but freedom is, perhaps, the most precious possessions known to mankind.

One which was so ruthlessly snatched from the people of Kuwait when our country was invaded two years ago this day.

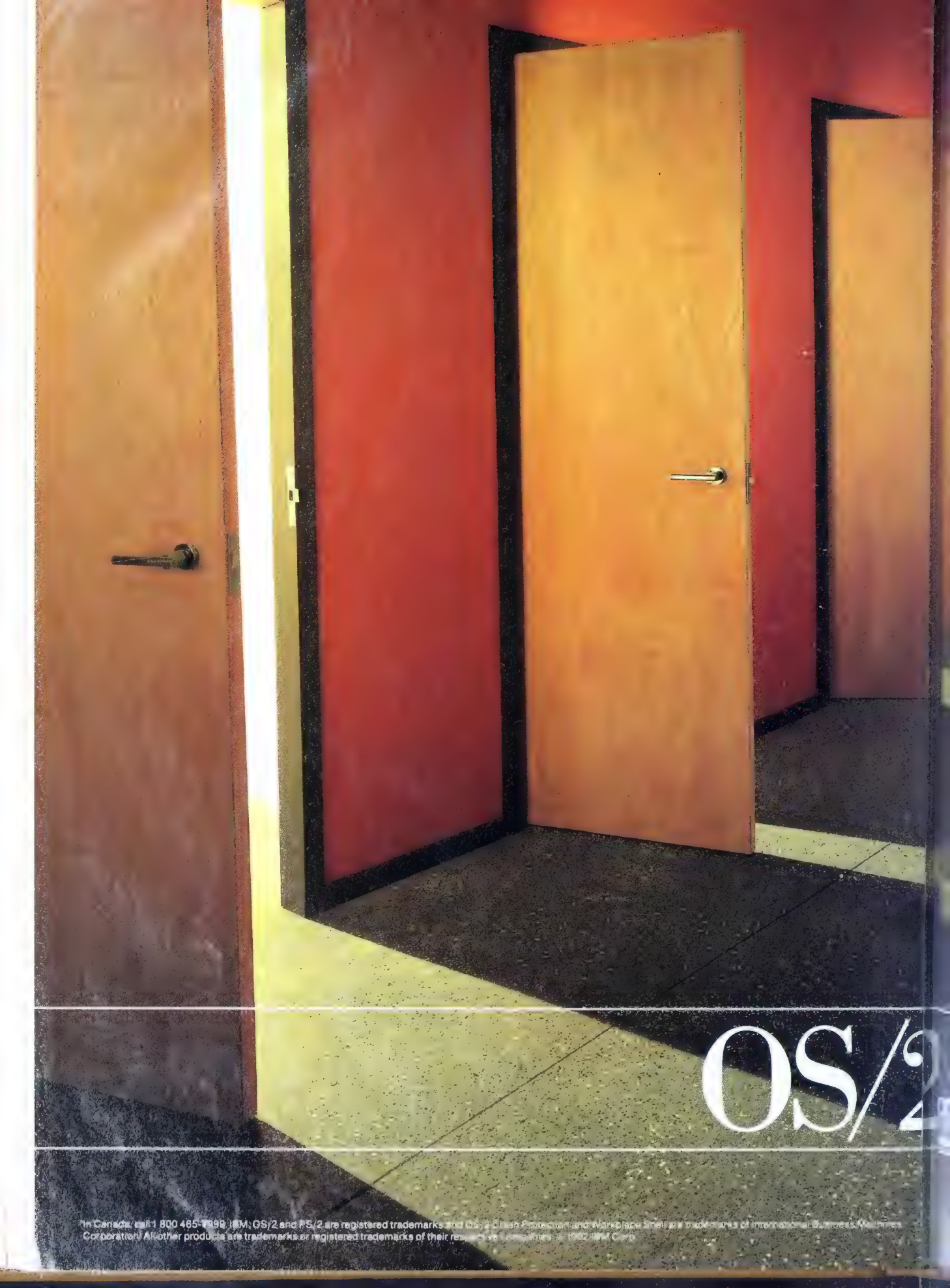
Without the help of the Coalition Forces it is hard to say how long we would have been denied the freedom to shape our own destiny. Our gratitude to you will never fade. Now, and forever.

But, for hundreds of our fellow countrymen freedom is still a distant dream. They are men, women and children who were dragged out of their homes or kidnapped from the streets by the occupation forces and made prisoners in Iraqi jails. Their families and kin are still suffering and waiting with hope for their return to a free Kuwait.

And, even as we thank you, we have to appeal to you once again. This time for your letter of support. It will help us in our efforts to secure the freedom of our POWs who are unjustly held in Iraqi jails.

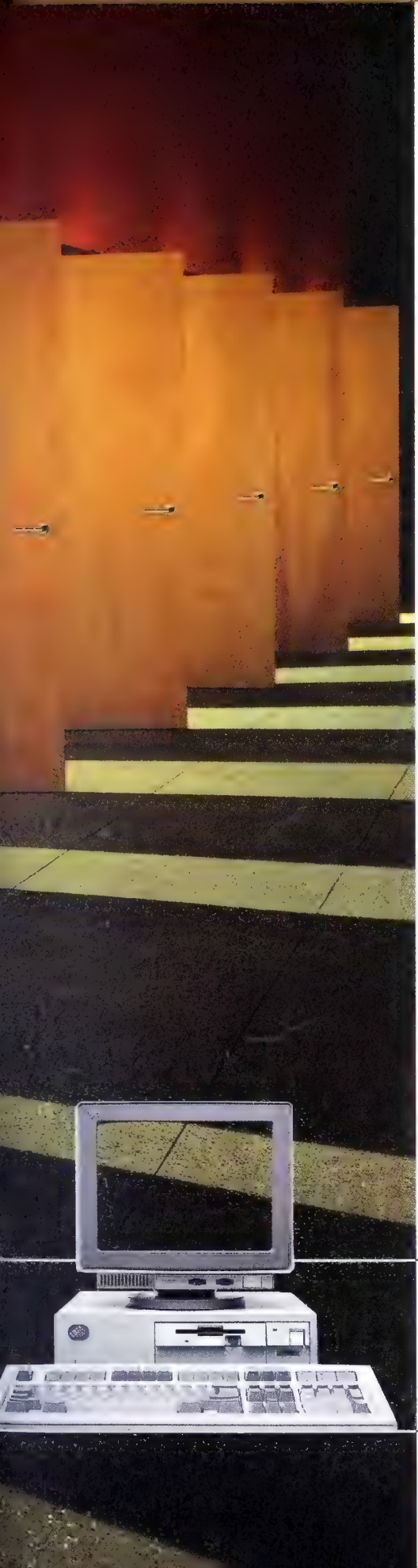
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EARTH IN THE BALANCE: ECOLOGY AND THE HUMAN SPIRIT

Senator Al Gore

Houghton Mifflin • 407pp • \$22.95

A CALCULATED CALL TO ECOLOGICAL ARMS

Al Gore's prescription for the world's environmental crisis, *Earth in the Balance: Ecology and the Human Spirit*, is well researched, informative—and a bit strange. It mixes such favorite baby-boomer topics as global-village citizenship and mid-life angst and adds some very fresh scientific thinking. The result is a book that is often confusing, but nevertheless worthwhile.

First published in January, book sales have picked up since Gore became the Democratic Vice-Presidential nominee.

GOP campaign strategists already are using it to paint Gore as an environmental extremist whose remedies would result in economic paralysis. Betting that most voters won't actually read it, the GOP snipers choose to ignore the fact that the book is hardly radical.

Less partisan readers may simply object to the preachy opinions and introspection that obscure the book's important points. After a touchy-feely introduction, however, the first eight chapters are a useful primer on the world's environmental problems. Here, Gore adroitly brings such dangers as climate change and deforestation to life.

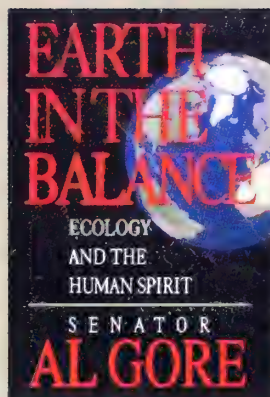
It's the second part of the book that begins the magical mystery tour into Al Gore's soul. Subtitled "The Search for Balance," it actually reels so much as to induce motion sickness. Gore careens from the Harvard core curriculum to the greatest hits of public TV, then rushes us through hundreds of sources, ranging from Aristotle's *Ethics* to Carl Sagan's *Broca's Brain* and—wheel!—over the rapids into *Saturday Night Live*.

TV, Gore says, has led the public to focus on form over substance in politics and has forced politicians to become actors too spineless to take any environmental steps that would discomfort the electorate. With characteristic overstatement, Gore likens this complacency to the appeasement of Nazi Germany, even going so far as to assert that economists

who neglect environmental costs are as morally blind as antisemites.

Next, our interdisciplinary tour guide ventures into psychology, comparing modern civilization to a dysfunctional family. Society's detachment from nature makes us like neglected children, desperate for self-affirmation as we suppress "emotions that might allow us to feel the absence of our connection to the earth." Just as these unfortunate children create false selves to hide their despair, "we have constructed a false world of AstroTurf, air conditioning, and

Gore takes us on a tour of science and his soul but avoids proposals that would cause political pain



fluorescent lights, windows that don't open and background music that never stops, days when we don't know whether it has rained or not, nights when the sky never stops glowing..."

Gore himself admits in the book that he's the kind of guy who has the air conditioner on full blast while driving to give a speech against the use of chlorofluorocarbons. The book is introspective right to the end, where Gore tells us that a new physics theory on how sandpiles build up and collapse led him to understand subtle and profound changes in the world and himself.

If the people of the former East bloc could topple their oppressive old order, Gore reasons, Americans can mobilize themselves to be world environmental leaders. He proposes a Global Marshall Plan, a series of measures to stabilize population, promote environmental technologies, and reform economic indicators

such as the GNP to account for environmental costs. But American voters may not have the urge to upset the status quo that Poles had in the waning days of communism, even if Gore says they should. Many Americans find driving their gas-guzzling four-wheel-drive vehicles a pleasurable experience, not a sign of a dysfunctional civilization. Lots of folks don't fear the automobile or shopping mall. They fear giving them up.

A seasoned politician, Gore knows this. His "tough new proposals," in fact, aren't all that tough. Many of his energy-efficiency measures were actually proposed by the Bush Energy Dept. in its first National Energy Strategy document. (As reasonable as they seemed, they were later either removed by Administration hard-liners or watered down in the Senate under industry pressure.) Gore proposes taxing businesses based on the carbon content of the fuels they produce or use. But he balances it with

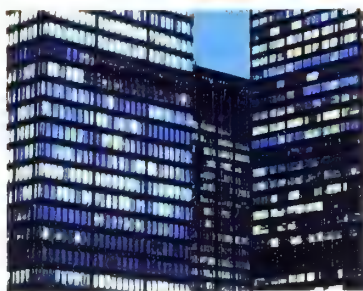
cuts in income taxes. His Global Marshall Plan requires action from international organizations and producers and indirectly affects consumers. It would impose strict energy-efficiency standards on appliance manufacturers, tax the use of nonrecyclable materials in manufacturing, and insist that international financial institutions use environmental criteria in awarding development grants.

Even though he wanted on the ticket then, one senses he wrote the book worrying as much about political fallout as about the environment. Despite his repeated warning that only decisive action will save the earth and his condemnations of American overconsumption, Gore ducks any measure that would really make voters pay for their lifestyles—such as high gasoline taxes, which he admits would be "logical." Suggestions such as restoring U.S. participation in worldwide pollution-control programs require scant voter sacrifice. All in all, Gore risks a little political capital in his proposals. That shields him from opposition researchers, but weakens his book.

Gore, however, says he sees the light. "I have become very impatient with my own tendency to put a finger to the political winds and proceed cautiously," he writes. But one can't help but notice that Gore's finger is still out there.

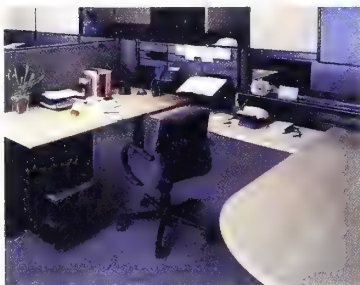
BY PETER H. HONG

Hong covers the environment from the Washington bureau.



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SURPRISES IN A WORLD ACCORDING TO ADAM SMITH

BY GARY S. BECKER



The global dismantling of socialist policies is providing a wealth of data: For example, private ownership seems to work better than public management even without competitive pressure

The privatization revolution sweeping the world surely ranks among the remarkable economic developments of the past few decades. What started in the 1970s and early 1980s as right-wing Thatcher and "Chicago boys" policies in Britain and Chile has spread to most countries, and it has caught on no matter what the economic views of the parties in power. The motivation is similar everywhere: the large deficits and inefficient employment and investment practices of state-run enterprises.

Privatization reverses the trend toward state ownership that began at the turn of the century in Britain, France, Germany, and other advanced industrial nations. At first, mainly railroads and local transport were nationalized, but eventually states took over companies in the electric-power and other sectors. It is easy to forget that the British renationalized the steel industry a mere 25 years ago and Mexico expropriated its banks in the early 1980s.

During most of this century, public-enterprise orthodoxy held that the state should run many industries because their presumed economies of scale make them "natural" monopolies. The evidence until the mid-1970s did not clearly show the inferiority of public management. For example, per-capita incomes in communist countries with pervasive state enterprises appeared to grow as rapidly as in other economies.

WORLD LAB. But the past couple of decades have provided decisive results. The apparently good communist record has turned out to be built with mirrors, and the collapse of communist governments has revealed their basket-case economies. West German taxpayers have discovered to their dismay that most factories in East Germany, the supposed industrial powerhouse of the communist bloc, are worthless in the modern economic world.

The privatization movement itself has become a rich source of data, for it is now possible to compare companies before and after they become private in various parts of the world, in countries with different cultures and stages of economic development. The World Bank recently issued preliminary reports by its economists on the effects of a dozen privatizations in Britain, Chile, Malaysia, and Mexico. They studied three telecommunications companies, four airlines, a gambling company, and four others.

In 11 of the 12 cases, privatization raised the sum of the welfares of workers, consumers, investors, and the government sector. Improvements in productivity and better investments led to large gains in nine cases. Profits expanded in each episode, and although

consumers were sometimes hurt by price increases, they also benefited in other cases from price reductions. Since few of the companies in this study had serious competitors, private ownership appears to perform better than public management—even without the pressure from strong competition.

Sharp cutbacks in employment generally contributed to the growth in productivity, which supports the common belief that public enterprises usually have too many employees. Yet, surprisingly, workers as a group generally benefited from the privatizations through higher wages for those who remained employed, generous severance pay, and employee participation in stock-ownership plans.

ROADBLOCKS. Despite the snowballing privatization programs, political pressure from unions and other special interests has prevented the sale of many companies still run by government. For instance, all countries maintain a state monopoly of regular mail delivery. This never made much sense, and makes none at all in view of the World Bank study: The report implies that productivity is likely to be higher with a privatized mail service, even if it has considerable monopoly power. And the growth of electronic and express-mail rivals means that private mail delivery will have much competition. A second example: the school system is everywhere a fully subsidized, government-run organization. The voucher movement in the U.S. aims to privatize schools, but neither President Bush or Governor Clinton is advocating school vouchers or other forms of privatization.

In Italy, the inefficient industrial giant *Istituto per la Ricostruzione Industriale* remains a public enterprise, overseeing a number of state holdings. Many insurance companies, banks, and energy companies have also stayed public. France badly runs its major computing and telecommunications companies, *Groupe Bull* and *Renault*, along with its coal industry, banks, and other companies. Czechoslovakia is the lone regime of the former East bloc that is moving rapidly to privatize its bloated state sector. Britain is off over 1 million housing units, but the government still owns one-quarter of the housing stock. Oil production is a state monopoly in Mexico, Norway, Venezuela, all the Middle East countries, and elsewhere.

Adam Smith persuasively argued more than two centuries ago that private ownership is essential to promote the wealth of nations. The evidence fully demonstrating this point has finally become so powerful that only dyed-in-the-wool socialists continue to believe that extensive government ownership of industry is a prelude to anything but economic disaster.

GARY S. BECKER IS PROFESSOR OF ECONOMICS AT THE UNIVERSITY OF CHICAGO AND A FELLOW OF THE HOOVER INSTITUTION

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Responding to the jokes about Alabama being years behind, Ray Rosewall says, "That's absolutely not the

case. Mobile, especially, is very forward-thinking in attracting new business, very open to change." He adds, "The city is much more of a melting pot of people than I expected."

Concerning the labor force, Ray says, "They're very hard-working; you just don't find workers in the rest of the country who take so much pride in their accomplishments. As for professionals, we have found many bright engineers from the state's universities."

Tim and Pat Langan didn't really expect to move to

Alabama when they came here for Tim's interview with the Alabama Shakespeare Festival in Montgomery. "But we saw the best production of Chekhov ever, and made

up our minds to come here at intermission," Tim says. "We felt that working with a theater that draws an audience from all over the nation, even 64 foreign countries, would be an excellent opportunity. And I've never seen such strong community support for a theater." The Langans, who have a six-year-old son and a 16-year-old daughter, say that the move from Rhode

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SONY

BY GENE KORETZ

THE ECONOMY THROWS A SHADOW ON THE GOLDEN YEARS

Is the long-term trend toward early retirement among U.S. men finally running out of steam? Recent labor force data certainly seem to suggest so. The labor force participation rate (those employed or seeking work) for males age 55 to 64, which fell sharply from 83% in 1970 to 63.2% in 1986, has since moved mostly sideways (chart).

If the trend toward earlier departure from the work force has halted, the economy could benefit. Economists have long advocated a shift toward later retirement to offset slowing population growth and reduce the huge costs of a dependent elderly population when the baby boomers reach retirement age.

A SLOWDOWN IN EARLY RETIREMENT?



Policymakers had hoped that market forces themselves would foster the process, as labor shortages produced greater incentives for middle-aged workers to remain on the job or opt for part-time work. In fact, that's what seemed to be happening in the mid-1980s, as labor force participation rates of 55- to 64-year-old men stopped declining. Says economist Philip Rones of the Bureau of Labor Statistics, "The economy was creating 2 million-plus jobs a year, and we were seeing scattered labor shortages. It's not surprising that many workers nearing retirement age found it advantageous to stay employed."

In recent years, however, job growth has slowed to a crawl, and many companies in the throes of restructuring have pressured employees to retire early. Yet there's no sign of a resumption of the downward trend in labor force participa-

tion among men age 55 to 64. Indeed, their participation last quarter was the highest since late 1984.

Economist Susan Hering of Salomon Brothers Inc. pins the blame on a number of adverse developments. She notes that delayed benefit cuts mandated by the 1977 and 1983 Social Security Acts have reduced Social Security pension levels for average earners retiring at 65 from 54.4% of preretirement earnings in 1981 to about 43% today. (Since most people retire at 62 or 63 with reduced benefits, actual percentages are lower.) At the same time, early retirement plans are yielding to the rapidly escalating cost of medical insurance, which most retirees must purchase with their own aftertax dollars until Medicare kicks in at age 65.

Older Americans also face dwindling assets and incomes. For most, their homes are their single largest asset, and many have watched home values evaporate in recent years. And dividend and interest income—a key source of support for retirees—shrank 5.8% in real terms in the past year, the sharpest drop in postwar history.

"With such incentives," says Hering, "older workers may be less eager to abandon the security of employment for the uncertain pleasures of retirement."

THOSE LOW INTEREST RATES AREN'T REALLY SO LOW

Why haven't consumers responded to the unprecedented drop in interest rates as they did in earlier periods of rate declines? Economist Robert Brusca of Nikko Securities Co. thinks one reason is that aftertax inflation-adjusted interest costs to consumers are actually at historically high levels.

Brusca notes that, aside from the decline in inflation, two tax changes have raised real loan costs for consumers: the phase-out of interest deductions except for mortgage interest, and the reduction in marginal tax rates, which has cut the value of mortgage interest deductions. By factoring in inflation plus these changes, Brusca is able to compare current real interest costs for mortgages, credit-card borrowing, and auto loans with their levels in past decades.

Although mortgage interest costs come off best in Brusca's analysis because they remain deductible, they're still high by historic standards. For those in the top marginal tax bracket, Brusca calculates that real mortgage rates are now running at about 2.7%, compared with 2.8% in the 1986-90 peri-

od and an average of 0.7% from 1980 through 1990. For those in the middle tax bracket, the real mortgage rate is about 3.7%, higher than the 1966-90 average of 1.9% but below the average 4.6% rate of the 1980s.

Credit-card costs and auto loan rates, on the other hand, are now at historically high levels for all taxpayers. Credit card loans are costing consumers an average of 15.6% in real terms, figures Brusca compares with an average 3.7% for middle-bracket taxpayers in the 1966-90 period and an average 7.6% for median-bracket borrowers. And auto loan rates are running about 7.3% in real terms, far above prior averages of 0.4% and 3.2% for middle- and median-bracket borrowers. "Compared to earlier periods," says Brusca, "today's real interest burden is causing consumers intense pain."

DETROIT'S PLANS FOR A SPURT IN OUTPUT SPUTTER OUT

It was only a month or so ago that observers were confidently predicting a healthy pickup in economic activity in the third quarter based on U.S. automakers' plans to boost output substantially. Domestic motor vehicle production schedules were strong enough to add as much as two percentage points to the economy's growth rate, experts estimated.

Not anymore. Economist Edward Hyman of International Strategy & Investment Group notes that auto makers, depressed by recent sluggish sales, have revised production schedules downward—so that unit auto output is projected to come in only slightly above second-quarter pace. "If car sales pick up, output will follow," says Hyman. But right now, Detroit seems likely to add only a marginal amount to third-quarter economic growth.

FALLING RATES SHAVE A FEW BILLION OFF THE FEDERAL BUDGET

Declining interest rates may not have helped consumers much, but they have helped the federal budget. Although the national debt now has hit \$4 trillion, up about 10% in the past year, interest payments by the Treasury have risen a mere 3%—and have been flat for six months. The Office of Management & Budget calculates that each percentage-point drop in rates helps reduce the deficit by \$4 billion in the first year and \$13 billion in the second.



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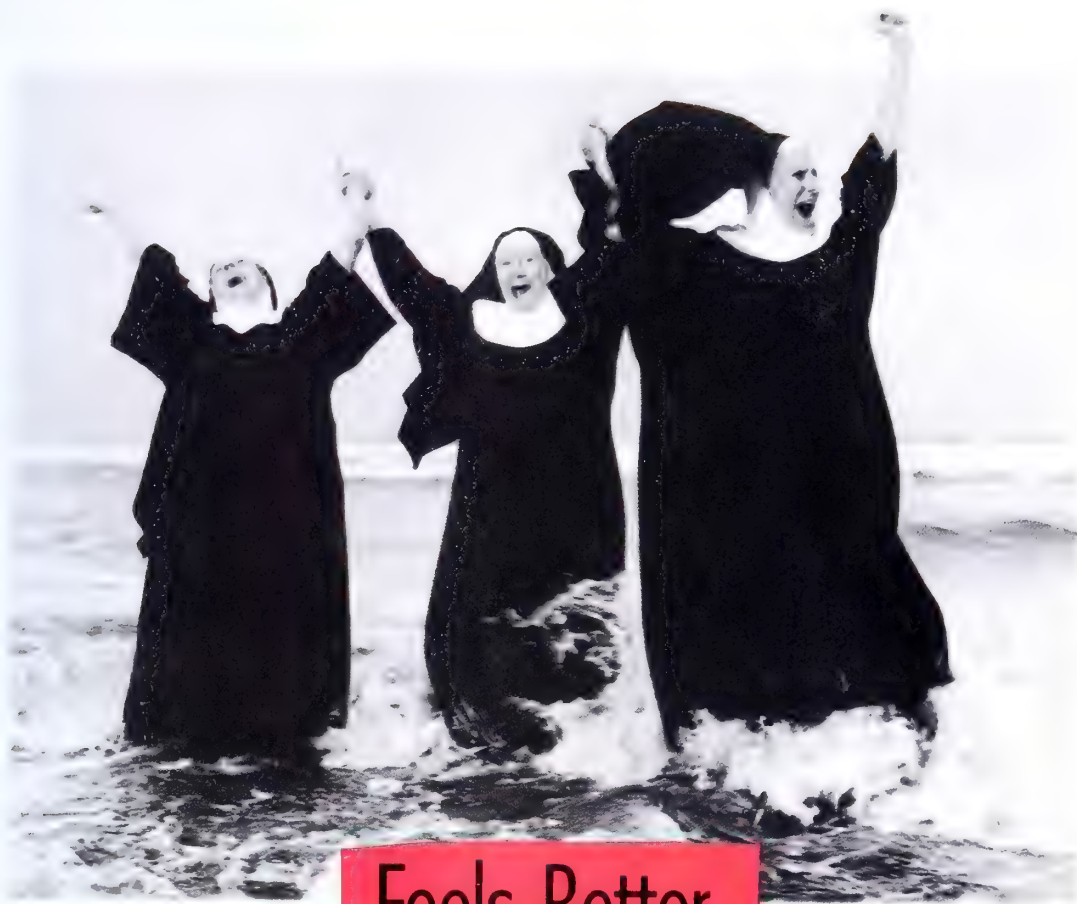


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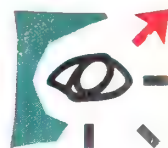
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WHY PROFITS ARE IMPROVING, BUT THE RECOVERY IS STILL SICK

Recoveries aren't supposed to hurt. The economy has grown steadily since the second quarter of 1991, but try to convince consumers and business. What they will tell you is that a 1.6% annual rate of growth during the past five quarters is painful. Such a feeble pace cannot generate the jobs and incomes that strapped households desperately need, and it squeezes the bottom lines of even well-run companies.

So far, people are coping. The trouble is, Corporate America is surviving at the expense of Household America. Pressure to cut costs to make money in a lethargic economy where pricing power is weak is the reason why jobs and incomes are registering subpar gains (chart). The resulting inability of consumers to supply their usual post-recession punch lies at the core of this historically dolorous recovery.

Clearly, past overleveraging in both the public and private sectors—and the Federal Reserve's unwavering efforts to achieve price stability via tight money—are the fundamental factors that set this recovery apart. But what's becoming equally clear is that unloading the heavy debt burden in half a century, while tightening the screws on inflation, creates an impossible climate for healthy economic growth.

GROWTH IS NEAR RECORD LOWS That much was evident from the Commerce Dept.'s report that real gross domestic product grew at a disappointing 1.4% annual rate last quarter, following a 2.9% pace in the first quarter. The two-quarter run was the peppiest in three years, but the failure of growth to maintain even its moderate first-quarter gait indicates that the recovery is still struggling. Commerce also released its annual benchmark revisions to GDP. The new numbers upgrade the severity of the recession, shifting it from one of the mildest to one in line with the average postwar downturn. More so, the data show that the economy has grown at an annual rate of only 0.7% since the end of 1988. Except for a period spanning two recessions in the early 1980s, which included one of the worst postwar slumps, that's the worst 3½-year performance since the 1930s. Growth like that will obviously take the starch out of inflation—something that investors, unlike consumers, are fi-

nally beginning to recognize (page 26). The GDP fixed-weight price index, the broadest measure of inflation, rose a mere 1.6%, at an annual rate, in the second quarter. That's the smallest quarterly increase in 25 years.

But the really interesting footnote to the second quarter is that, despite weak prices and anemic growth, many corporations managed surprisingly strong earnings gains. Aftertax profits were up some 20% from a year ago, according to BUSINESS WEEK's latest roundup (page 62). And Standard & Poor's Corp. reports that dividend payouts are recovering strongly. Through July, they are up 21.3% from a year ago, says S&P.

What this suggests is that businesses are fattening their profit margins by cutting costs, in large part by keeping the growth of wages and payrolls in check. But that's the catch. Because corporate cost-cutting hits consumers right in the wallet, the steady drone of slow growth seems likely to continue in the second half.

Weak income growth explains why real consumer spending, adjusted for inflation, declined last quarter at an annual rate of 0.3%. Personal income was flat in June, and real aftertax earnings fell 0.2%. Real income is down notably from its March level. The three-month drop is the steepest since the recovery hit rough going last summer.

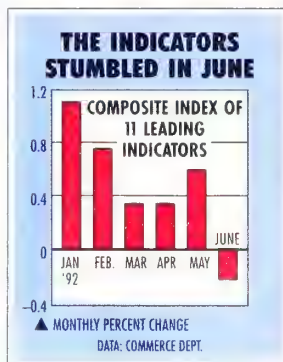
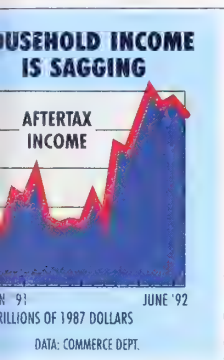
Slow growth seems to be the forecast from the index of leading indicators. It posted a broad 0.2% decline in June (chart). Six of the 11 indicators gave negative readings, especially money growth. The drop was the first since December.

The index of coincident indicators, which plots the economy's current path, looks particularly disheartening. It fell 0.6% in June, and it has risen only twice in the past year. In fact, the index hit a cyclical low point in June. Taken by itself, that's evidence that a recovery isn't even under way.

INDUSTRY ZIGS, ZAGS, AND ZIGS AGAIN

Mild growth in consumer demand suggests that the industrial sector will continue along its start-and-stall trend in the second half. In general, the headway of good months will outpace the backsliding of bad periods, but this zigzag pattern is another reason why this recovery still feels more like a recession.

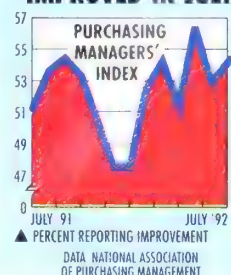
July seems to have been one of the good months. The



Business Outlook

National Association of Purchasing Management's index of business activity rose to 54.2% in July, from June's 52.8% (chart). New orders, especially for exports, and production led last month's increase. The NAPM also said that inventories were up sharply in July.

INDUSTRIAL ACTIVITY IMPROVED IN JULY



Some producers intentionally built up stockpiles in anticipation of their suppliers shutting down for vacation and maintenance. The shutdowns will affect other data as well. For example, the two-week closings at General Motors Corp. will cause a temporary surge in initial claims for unemployment insurance beginning in late July.

For some industries, the inventory buildup may reflect a need to restock empty shelves. The government's report on factory activity, which is much broader than the NAPM survey, shows that shipments surged 2.4% in June, helping to shrink inventories by 0.1%. As a result, the ratio of inventories to sales dropped sharply, from 1.59 in May, to 1.55 in June—the lowest ratio in 33 years of record-keeping.

SIGN OF LIFE: HOME LOANS HIT A NEW HIGH

Companies' tight rein on inventories is a big reason why output should respond quickly to even a modest pickup in consumer spending. And with the housing rebound showing new signs of life, thanks to an infusion of lower mortgage rates, demand for home-related items will help to revive consumer outlays by late summer.

Sales of single-family homes jumped by 7.9% in June, to an annual rate of 572,000, and May's data were revised sharply higher, to show a sales rate of 530,000, instead of just 501,000. In addition, the latest news on mortgage applications indicates that home buying should continue this strong performance into the fourth quarter.

The Mortgage Bankers Assn. reports that loan applications for home purchase hit an all-time high in the week ended July 24, surpassing the previous record set in January. These applications suggest big gains in the home sales data for August and September.

Continued healthy demand for homes will be the main prop under the construction industry. The nonresidential sector—plagued by overbuilding in the 1980s and lack of financing—continues to be a dead weight on the industry (chart). As a result, the recovery in construction remains quite sluggish by historical standards.

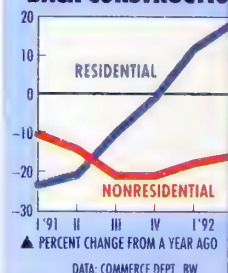
Outlays for all construction projects fell 1.5% in July and pushed spending back to its lowest level since February. But the unexpected drop, though unnerving, probably overstated the trouble that builders are in.

That's because government spending on building projects—another support for builders—fell 5.7% in June. That's the last month of the fiscal year for most states, though, and the decline likely reflected states putting projects on hold until new budgets kicked in on July 1. If so, spending on public works probably bounced back in July.

Private construction spending was virtually flat in June, as a 1.1% rise in homebuilding offset a 0.9% fall in industrial and commercial projects. These divergent trends should continue. The home-buying rebound will clear out some of the supply of unsold houses, unlike the seemingly endless glut of commercial properties.

Low mortgage rates will keep the housing rebound moving ahead. Low rates also enable homebuilders to clean up their balance sheets. However, this recovery will have to generate a lot more jobs than it did in the first half before more consumers start reaching for their wallets instead of a bottle of aspirin.

WHAT'S HOLDING BACK CONSTRUCTION



THE WEEK AHEAD

PRODUCTIVITY AND COSTS

Tuesday, Aug. 11, 10 a.m.

Output per hour worked in the nonfarm sector likely rose at a 1% annual rate in the second quarter, down from a 2.6% advance in the first quarter. Nonfarm output posted a small gain last period, but total hours worked rose by an even slimmer amount. Unit labor costs, which fell at a 0.6% rate in the first quarter, likely grew by about 1.5% in the second.

PRODUCER PRICE INDEX

Wednesday, Aug. 12, 8:30 a.m.

Producer prices for finished goods likely rose by just 0.2% in July, the same small gain recorded in June, say economists polled by McGraw-Hill Inc.'s MMS Inter-

national. The modest inflation rate is suggested by lower fuel costs, along with generally sluggish demand.

RETAIL SALES

Thursday, Aug. 13, 8:30 a.m.

Retail sales probably rose by about 0.3% in July, after a 0.5% gain in June. Warm weather boosted apparel and department-store sales last month, but car sales were lackluster.

CONSUMER PRICE INDEX

Thursday, Aug. 13, 8:30 a.m.

The MMS consensus is that consumer prices rose by 0.3% in July, helped by lower gasoline prices. In June, prices also increased by 0.3%. Over the past year, consumer prices are up by 3.1%.

INDUSTRIAL PRODUCTION

Friday, Aug. 14, 9:15 a.m.

Output at factories, mines, and utilities likely increased by 0.3% in July, partially reversing a 0.4% drop in June. Warmer weather increased the demand for utilities. Capacity utilization likely rose to 78.6% in July, from 78.5% in June.

BUSINESS INVENTORIES

Friday, Aug. 14, 10 a.m.

Inventories at manufacturers, wholesalers, and retailers probably rose 0.1% in June, the same small gain as in May, say the MMS economists. Manufacturers have already reported a 0.1% drop in their stock levels, but retailers probably saw their inventories rise.

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FEAR OF FLYING PRICES

SOME INVESTORS BET INFLATION IS DEAD—BUT CONSUMERS REMAIN ANXIOUS

Randy Merk, a portfolio manager at Benham Capital Management Group in Palo Alto, Calif., says inflation isn't bugging him these days. That attitude is the main reason why big investors have been buying bonds, sending the rate on 30-year Treasuries from about 7.7% to about 7.4% in recent weeks. With inflation rising just 3.1% over the past year and still slowing, he sees that "investors are beginning to understand that inflation is not a big problem."

But that's not how LaMonica Hardwell sees it. The 25-year-old mother of two, who lives with her husband Dennis in Harbor City, Calif., says money is tight. Although both are employed—she runs a babysitting business out of her home, and he works as a county clerk—Hardwell worries about the soaring price of such family necessities as baby formula and disposable diapers. "The dollar just doesn't buy as much," she says. "Prices are definitely going up. I think it will get worse."

Is Hardwell the last living American worried about spiraling prices? Not by a long shot. Even after some 3½ years of economic stagnation, America's consumers just aren't convinced that inflation is tamed. Indeed, they expect the cost of goods and services to grow about 4.4% over the next year, according to a July Conference Board survey—far faster than economists' projections (chart).

There it is: a yawning gulf between perceptions and actual inflationary pressures. No one is more acutely aware of that gap than Federal Reserve Chairman Alan Greenspan. The nation's official inflation worrywart told the Senate Banking Committee on Aug. 5 that inflationary expectations are keeping long-term interest rates higher "by a very significant order of magnitude."

UPBEAT NEWS. Strange thing is, the gulf persists despite mounting evidence. For some key items—food, energy, and housing among them—inflation is nearly gone. Moreover, the unemployment rate

is widely expected to stay above 7% through 1993. As labor is slack and wages grow slowly, this suggests that the core rate of inflation (which leaves out food and energy prices) could drop as low as 2.8%, says Chris P. Vavares, an economist at forecaster Lawrence H. Meyer & Associates Ltd. The rate has not dipped so low for a sustained period since 1965, when Lyndon Johnson

started to crank up the war in Vietnam.

The inflation news from Industrial America is unremittingly upbeat. In the past 12 months, manufacturers cut prices on finished goods by an average of just 1.5%. From cement to electronics to steel, companies are cutting prices and squeezing suppliers. "Quite a few of the large companies are saying we're not accepting any price increases," says



CONSUMER GOODS Electronics prices and those of other products are falling



COMMODITIES Weakness in building has kept the cost of concrete low



ENTERTAINMENT At some theaters, bargain nights are becoming popular



HOUSING The fall in rents and prices is helping suppress inflation

erry Combs, a marketing vice-president of Cleveland-based Parker Hannifin Corp.'s Filtration Group.

Even the drug industry—notorious for rising prices—has got the bug. Seven drugmakers have vowed to hold their price increases this year at or below the general rate of inflation. “No longer can we allow ourselves to have a mentality that costs are just rolled through to the consumer,” says DuPont Merck Pharmaceutical Co. Executive Vice-President Kurt M. Landgraf.

So why do consumers persist in fearing inflation? In part, it may just be human nature to pay closer attention when prices go up instead of down. Also, consumers see some hard-to-avoid tabs continuing to rise: The big increase in costs of education, a rising property-tax rate, and higher sticker prices for automobiles. Their skepticism grows every time they sit down to pay their bills or make even the most modest purchase. Smokers have seen the price of cigarettes rise by 8% this year, and with

cable charges rising, the cost of being a couch potato rose almost 6%. Over the past year alone, college tuition has risen an average of 11.6%.

J. Ernest and Joan Loomis of Madison, Conn., don't need economic studies to tell them that. With one child recently graduated from college and another just

Consumers notice such rising tabs as education costs, property taxes, and car prices

entering, the couple is feeling the pinch. “Our biggest uncontrollable expense is college tuition,” says Ernest, a computer consultant and director of business development for Pacific Information Management Co. of Los Angeles. “College tuition is truly out of control.”

Anyone who has to go to the doctor or into the hospital knows rising medical

costs remain a fact of life. The costs of medical care rose 7.5% in the past year, says the Bureau of Labor Statistics. But even that understates the increase in out-of-pocket costs, since many employers' health plans are less generous.

TUESDAY BARGAINS. Then there's the taxman. From California to Connecticut, taxpayers have seen their state tax bill rise by almost \$20 billion over the past couple of years. An economist will tell you that an increase in property or income tax doesn't count as a price rise. But try telling that to a taxpayer who has less disposable income. What's more, fiscally pressed states will likely be back for another bite next year if the recovery remains weak.

Some consumer worries about inflation are being fed by artificial price increases. Take the widely publicized nominal prices for automobiles. This year, U.S. and Japanese auto makers boosted sticker prices on new autos and light trucks. But having created the appearance of inflation, the carmakers then gave most of the increases back to consumers in the form of discounts and rebates. In the end, the price of new cars rose by just 2.3% over the past year.

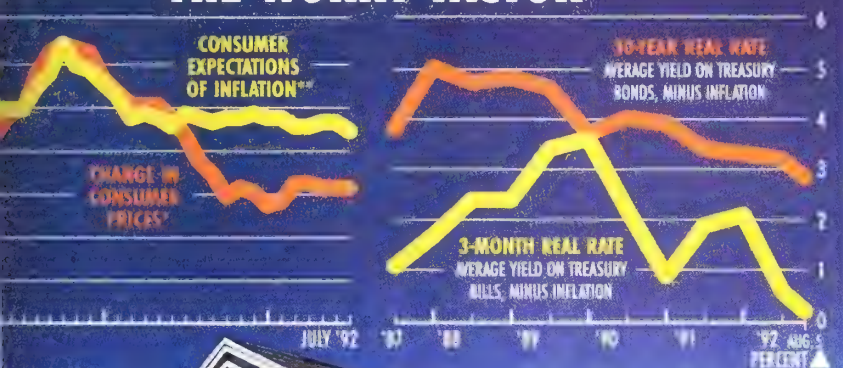
Auto makers aren't the only companies to embrace the strategy. Just last month, Carnival Cruise Lines Inc. announced it was raising cruise prices by 9%, effective in November. But the price increase is on paper only, since Carnival plans to offer deep discounts to match competitors' slashed rates.

If consumers are truly going to be convinced that inflation is no worry, they'll need tangible proof of price cuts. Some companies have been obliging. The Carmike Cinemas Inc., a 1,500-screen chain based in Columbus, Ga., introduced a special Tuesday bargain in some markets, cutting all tickets to the regular children's price—usually about \$3 a seat. And when Christopher's Restaurant, a popular 250-seat eating place and watering hole in Cambridge, Mass., found its business going downhill last year, owner Charles Christopher reformulated the menu and cut prices an average of 20%. That plan boosted not only traffic but revenues, too.

Any plans to raise prices? No way, says Christopher. “Greed hasn't set in yet. Once you start raising prices, people just say, ‘Here they go again.’ I'd rather keep prices down and keep the place filled.” As that strategy spreads, inflationary fears eventually may loosen their grip on the economy.

By Michael J. Mandel in New York, with Mark Maremont in Boston, Gloria Lau in Los Angeles, Joseph Weber in Philadelphia, and bureau reports

THE WORRY FACTOR



HEALTH CARE



A MINNESOTA CLINIC: THE STATE IS A LEADER IN THE DRIVE FOR REFORMS

THE STATES ARE FED UP WITH DIDDLE ON HEALTH CARE

And their reforms may scare Washington and business into action

For many governors, looking to Washington for help in overhauling the health care system is like asking in a new version of *Waiting for Godot*. Frustrated by gridlock in the capital, several states are pushing their own reforms. The initiatives range from new taxes to help cover the uninsured to requirements that companies provide benefits to workers (table).

But the state reform drive has hit a brick wall—a federal law called the Employee Retirement Income Security Act of 1974, or ERISA. State officials contend that they can't move forward unless they can regulate all benefit plans, including those of companies that pay employee health bills from their own funds rather than buying private insurance. But ERISA exempts these self-insured plans from state insurance laws. "The states are being told to be laboratories of democracy, but we're not being given the equipment," says Robert Rogan, deputy director of Florida's Washington office.

LOBBYING BLITZ. Now, the states want ERISA waivers from Congress. By mid-August, lawmakers from both parties plan to introduce bills to give states some control

over self-insured plans, which account for 60% of group insurance claims.

But passage this year is far from certain. The bills have unleashed a lobbying blitz from employer groups worried that corporations operating in many states would be subject to an expensive patchwork of benefits requirements. It's also unfair, they contend, for states to tax self-insured plans to pay for the uninsured, because private health plans already are picking up this tab through higher rates from doctors and hospitals.

The White House shares business' concerns. Despite an oft-claimed devotion to states' rights, it isn't likely to side with the states this time. "We're getting into an area that makes us ex-

tremely uneasy," says White House aide Gail R. Wilensky. President Bush recently dealt a setback to state experimenters in health care by rejecting Oregon's request to reform its medicaid system.

Leading the states' charge are Florida, Vermont, and Minnesota, which enacted reforms this year. Under Florida law, the state in 1995 could require employers to cover workers. The state would need an ERISA waiver to force companies to offer a specified package of minimum benefits. Minnesota also is seeking a waiver to pay for its new HealthRight plan, which would be financed in part by a 2% tax on the gross revenues of doctors and hospitals. But Minnesota officials worry that the law is open to an ERISA challenge because hospitals could pass on their liability to self-insured plans.

State reformers argue that ERISA prevents them from requiring something as simple as a uniform claims form. States that want far-reaching changes, such as reinsurance pools for catastrophic cases, cannot tax self-insured plans to raise revenues. Without waivers, says Senator Patrick J. Leahy (D-Vt.), "The states will cobble something together, and it will not be anywhere near as good."

A recent court ruling also jeopardizes some plans already in operation. In May, a federal court struck down New Jersey's surcharge on all hospital bills to pay for treating the uninsured. The court agreed with a union-run health plan that the law indirectly regulated self-insured plans, which ERISA prohibits. If the ruling is upheld, it could affect plans in Maryland and New York.

EMOTIONAL ISSUE. Another pending case, though, could prove troublesome for employers. The Supreme Court is deciding whether to review a U.S. Appeals Court decision last November that Houston-based H&H Music Co. didn't violate ERISA after it switched to self-insurance and reduced lifetime benefits for employees from \$1 million to \$5,000. The case is emotionally charged that regardless of the outcome, it's likely to draw congressional attention to the freedom from state regulation of self-insured plans now enjoyed by many employers.

Ironically, the threat of state interference could galvanize business to back national health reform. Some of the proposals being bandied about in Washington may seem like castor oil for Corporate America. But business lobbyists just might decide they take better than what the states are prescribing.

By Susan B. Garland
Washington

NOT WAITING FOR WASHINGTON

CALIFORNIA Voters will consider a November ballot proposal that would require employers to cover full-time workers

FLORIDA New law sets a Dec. 31, 1994, goal for employers to provide universal access to minimum benefits

HAWAII State already requires employers to cover workers. Now it wants to expand minimum benefits

MINNESOTA HealthRight plan would cover low- and moderate-income families, to be financed by tax on doctors and hospitals

OREGON Wants to require employers to provide coverage or pay a tax into a state insurance pool

DATA BW

THE DISABILITIES ACT IS A GODSEND—FOR LAWYERS

If it works as its proponents hope, the sweeping Americans with Disabilities Act could open the nation's workplaces far wider to 18 million working-age people with disabilities. Two-thirds of them now are unemployed because physical barriers and discrimination stand in their way. But there's another group of winners: able lawyers, who sense a bonanza in the mushy mandates of the ADA.

And a legal windfall is already beckoning. The part of the ADA that requires public places to be accessible to the disabled took effect on Jan. 26. It already generated numerous state lawsuits and comments to the Justice Dept., which can then bring its suits. The provisions bar employers from discriminating against the disabled, which took effect on Jan. 26, are expected to produce 15,000 complaints in the first year, says the Equal Employment Opportunity Commission. Many suits may prove to be justified. But if suits under similar state laws are any indication, employers will find themselves poised on the edge of a litigation trap. One reason is that the law's seemingly innocuous requirements are so vague that it'll take the courts

years to flesh them out. The EEOC's regulations confuse things further. "It's like a recipe for bread where they don't tell you how much flour or yeast to use," says David A. Copus, an attorney at Jones, Day, Reavis & Pogue. "It's the penalty if you don't make a loaf is a violation of the law."

THE FIELDS. Some parts of the law are particularly clear. Obvious no-nos for employers: asking directly in a job interview about a disability such as blindness, or even cancer, or requiring applicants to take medical exams before they're hired. And making offices and plants more accessible is turning out to be easier and cheaper than employers had feared. DuPont Co. has hired special large-print computer software for a PhD chemist with poor sight and installed electric lifts for systems specialist with multiple sele-

rosis. Most accommodations provided in the past cost employers less than \$500 apiece, says Jim Gleich, executive director of Disability Rights Education & Defense Fund in Berkeley, Calif.

Still, the statute has plenty of mine fields for employers. Consider the definition of disability, which includes both mental and physical impairments. There are explicit exceptions for such things as illegal drug use and homo-

rule that employers must provide special arrangements so that disabled workers can perform "essential" job functions. What are essential job functions? Courts will have to decide. Decisions under a decade-old California law resembling the ADA suggest that companies won't get clear rules soon.

FORESIGHT SAGA. In a California case, telephone installer Debra Ackerman sued Western Electric Co., which had

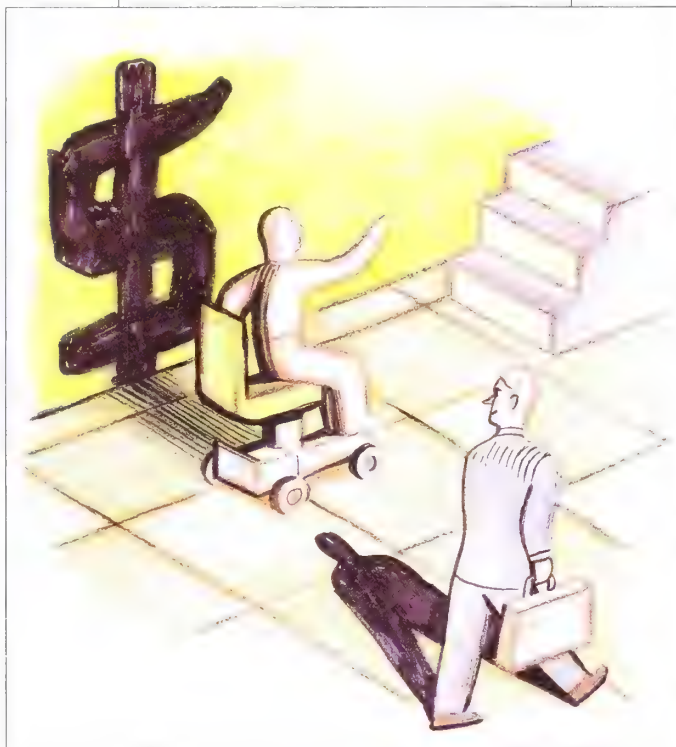
fired her after she developed a bronchial infection that, she says, prevented her from fixing gritty cables. A U.S. District Court in San Francisco in 1986 ruled against the company, saying that dusty repair work was not an essential part of her job and that Ackerman still could fix cleaner, modern cables.

But in 1989, a California administrative agency sided with Firestone Tire & Rubber Co., which had dismissed a tire salesman who suffered an injury that kept him from lifting heavy tires. The agency ruled that heavy lifting was an essential part of the salesman's job and refused to reinstate him. The company settled for a small sum with the worker after he appealed.

Some companies are taking measures in the hope they won't be involved in

costly cases filling in the blanks in the ADA. Miami-based Burger King Corp. has identified eight jobs for its restaurant workers, ranging from Whopper making to cashier duties. Under a rule that the company will adopt this month, if 70% of the workers in a restaurant can perform all eight duties, the rest can forgo some of them. That gives Burger King leeway in assigning chores to disabled workers.

Less farsighted companies are likely to fall into the law's canyons. The handicapped will be aided by programs that companies such as Burger King undertake and by at least some court decisions. But the big winners figure to be the dueling attorneys on each side of the legal divide. The ADA is a laudable piece of social engineering. But it's also shaping up as a gravy train for the nation's lawyers.



sexuality, but a wide range of personality traits or emotional conditions—including stress—conceivably could fall under the law. One Wisconsin lawyer threatened in 1987 to file a wrongful-discharge suit for an employee who was fired after claiming to have finished several tasks she hadn't completed. Her defense: She was a pathological liar. The suit was never filed, but legal experts say it might have a better chance under the ADA.

It'll be just as tough hashing out the

**'It's like a recipe
for bread where they
don't tell you how much
flour or yeast to use'**

HUMDRUM, HUMBLE—AND NOW A REAL HEAVYWEIGHT

Fixed-income funds have made Franklin rich enough to buy Templeton

The Johnson family isn't as famous as the exotic, globetrotting John M. Templeton (page 31). But the dynasty, which controls Franklin Resources Inc., has earned a considerable fortune by selling Franklin mutual funds, which are chock full of the most humdrum of investments—U.S. government securities or municipal bonds. Now, with their deal to buy Templeton's company, Templeton, Galbraith & Hansberger, for \$913 million, the Johnsons

move investments between the two without paying a second load. That will help shareholders diversify their holdings.

That's the key reason Franklin did the deal. With the Templeton acquisition, Franklin will now have overseas funds to sell at home and a selling network overseas for its own funds. "When we heard Templeton was interested in selling, it took about 15 seconds for us to get interested," says Charles E. Johnson, son of the chairman, grandson of

Franklin investors learned long ago not to second-guess the Johnsons, who own about half the company's stock. "Franklin never blows its horn very much," says Robert F. McCullough, whose San Francisco money-management firm McCullough, Andrews & Capiello Inc. is the largest nonfamily shareholder. "But it does an outstanding job."

McCullough began buying Franklin in the early 1980s at a price, adjusted for stock splits, of a mere 11¢ a share. He Munder, whose Munder Capital Management is another major institutional shareholder in the fund, also raves about Franklin. "How many companies do you know that have a compounded annual earnings growth rate of 39%, a 27% return on equity, and sells at a price-to-earnings ratio greater than the stock market?"

Much of the fund's success comes from Franklin's marketing prowess. In the early 1980s, when most fund companies were preparing for an onslaught of equity funds, the Johnsons figured the big boom would come in fixed-income funds. The company was a pioneer in offering mortgage-backed securities and single-state municipal bond funds. Today, it boasts the largest government securities fund and the largest California and New York muni bond funds. **'BRAND NAME.'** The Johnsons are willing to spend to get what they want. At the price for Templeton, when measured as a percent of assets or a multiple of revenues—the traditional valuation yardsticks in the money-management business—is a little high. But this isn't an any old fund company. "Templeton is a unique brand name," says A. Michael Lipper of Lipper Analytical Services. "It's worth a premium."

Besides, Franklin can afford to pay a premium price. The pro forma financial statements indicate the combination of the two would have enhanced profitability about 8%. And Franklin is a financial powerhouse: It has almost no debt, some \$370 million in cash and other liquid investments. To finance the Chemical Bank is providing \$360 million in loans. An additional \$150 million of subordinated debentures is coming from Hellman & Friedman, an investment bank. Templeton and some principal shareholders are even kicking in \$750 million to buy restricted Franklin stock.

That shows Templeton still has any for a good investment. While the fund industry has grown fivefold over the past decade, Franklin's total assets under management have grown by more than 3,000%. Its stock price has surged by more than 42,000%. That kind of performance makes humdrum investment look quite exhilarating.

By Jeffrey M. Laderman in New York

HOW FRANKLIN RANKS

ASSETS UNDER MANAGEMENT AMONG ALL MONEY-MANAGEMENT COMPANIES
BILLIONS OF DOLLARS

FIDELITY INVESTMENTS

\$154.2

MERRILL LYNCH

98.7

VANGUARD GROUP

77.5

FRANKLIN/TEMPLETON*

72.4

DREYFUS

70.8

MARKET CAPITALIZATION OF PUBLICLY HELD U.S. MONEY-MANAGEMENT COMPANIES
MILLIONS OF DOLLARS, AS OF AUG. 1

FRANKLIN**

\$2,281

DREYFUS

1,415

ALLIANCE CAPITAL MANAGEMENT

1,040

I. ROWE PRICE

626

UNITED ASSET MANAGEMENT

541

*Excludes offshore funds, closed-end funds and independent accounts

**Pro Forma

SOURCE: COMPANY REPORTS, LIPPER ANALYTICAL SERVICES, BRIDGE INFORMATION SERVICES INC.

have shown that prosaic can pay off big.

With the Templeton acquisition, Franklin will jump ahead of Dreyfus Corp. to the No. 4 spot on the roster of big mutual-fund companies—with \$72.4 billion in U.S. registered mutual funds (chart). Roll in Templeton's closed-end funds, offshore funds, and separate accounts, and the combined company will control some \$87.8 billion in assets. Indeed, all by itself, Franklin controls about \$61 billion in assets, making it one of the powerhouses of fund companies.

QUICK DECISION. Franklin management says it will run Templeton as a separate subsidiary. Indeed, there is little overlap between the two mutual-fund families, since Templeton's investments center around equities. But both companies have the same distribution channels: Each sells funds with up-front sales charges through brokers and financial planners. In time, the merger should allow low shareholders of each fund family to

the founder, and the senior vice-president who negotiated the deal. "To be important in the fund industry over the next decade, you have to go global."

Wall Street must agree. When the deal was announced on July 31, Franklin's shares shot up more than 10%, to nearly 30. That raised its total market capitalization to nearly \$2.3 billion—more than 50% greater than Dreyfus, the next-largest publicly traded fund company (chart). "The market's reaction vindicates our analysis that this is a powerful strategic fit," Johnson says.

With no debt and \$370 million in cash, Franklin could easily afford to pay a premium for snazzy Templeton

JOHN TEMPLETON UNPLUGS THE STOCK TICKER

The dean of mutual funds is selling his firm—but he's still bullish

While most of America frets over an economic storm that won't seem to blow over, legendary mutual-fund manager John Templeton sees nothing but a bright horizon. And as usual, his independence comes from a matter-of-fact assessment of the long term. "The next 100 years will be the most prosperous period in world history," he says confidently, noting that as communism withers and the threat of nuclear war recedes, global stores of scientists, doctors, and managers have never been better. "The place to invest is always the place of maximum pessimism," he says. For 52 years, investors have been able to count on Templeton to find a point—no matter where it was—and capitalize on it decisively. Known as the dean of global investing, Templeton has long dazzled investors by unearthing value in companies tucked away in struggling countries. Ten years ago, he plunked into Templeton's first mutual fund in the world now be worth more than \$2 million. "He's an extremely patient investor," notes William E. Holzer, portfolio manager of Scudder Global Fund Inc. "Lots claim to be long-term investors. Templeton really is."

But on July 31, he finally cashed out. The man affectionately referred to in the industry as "Mr. T" signaled the end of his career by merging his celebrated money-management business, Templeton, Praith & Hansberger, with Franklin Resources Inc. in a deal that will pay Templeton shareholders \$913 million. Templeton, his partner John Praith, and his son John will get most of it. Together they own 70% of the firm.

AS TOUCH. His decision surprised few: At 79, Templeton has become more a figurehead than a day-to-day manager of the business. His clients and colleagues have been quick to remind him of his mortality. "They've been asking what happens

when I'm not around," says Templeton, who will stay on in an advisory role.

Mr. T certainly hasn't lost his touch for picking stocks. Over the past year, his \$3.1 billion Templeton Growth Fund has returned an impressive 20.3% to shareholders, vs. 9.6% for its peer group. It's no secret, though, that his firm—which has \$21.3 billion in assets spread over 78 funds—has looked tired lately. While other funds, such as Oppenheimer and Putnam, lowered their commissions to attract new investors, Templeton has responded slowly. And though investor interest in global funds peaked in 1989, it's now on the wane. The result: flat earnings and an outflow of an estimated

\$300 million in assets last year. Says Don Phillips, publisher of *Morningstar Mutual Funds*: "They haven't capitalized on the most recent mutual-fund boom."

That's unusual. Templeton began winning investors' wallets four decades ago by snapping up shares that were overlooked or scoffed at by rivals. He routinely searched as far away as Jordan, Malaysia, or Indonesia for prospects. In the early 1970s, conventional wisdom still held that Japanese industry merely cranked out poor imitations of U.S. products. Templeton, though, noticed that "copycats" such as Hitachi Ltd. and Matsushita Electric Industrial Co. were wildly undervalued. "I always try to buy where people are urgently selling," he says. "If you buy where people are optimistic, you can't get a bargain."

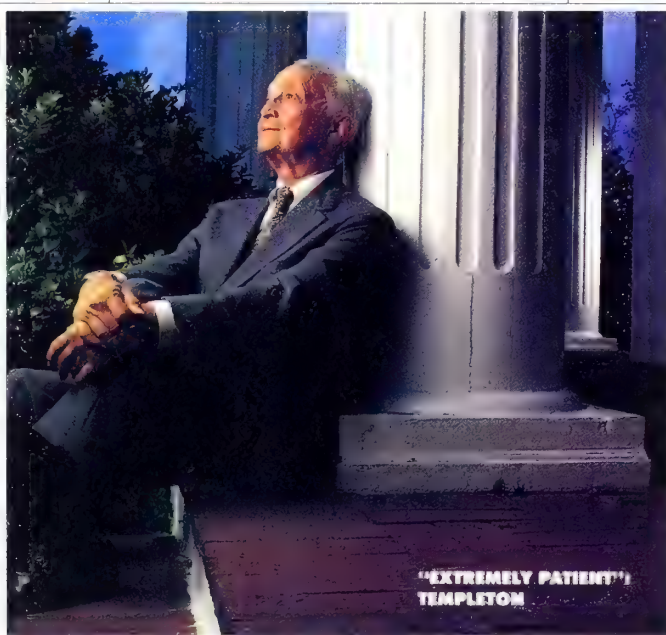
BIG POT. Templeton's views are as uncomplicated as the hilly countryside of Franklin County, Tenn., where he was born in 1912. The son of a self-taught lawyer and cotton ginner, he attended Yale University and later moved on to

Oxford University as a Rhodes Scholar. In 1936, he began globe-trotting with cash he had won playing poker, but returned to the U.S. a year later to join a Dallas-based oil-prospecting business started by an Oxford buddy. By 1941, he had enough socked away to found his own money-management firm.

Gambling and prospecting aside, Templeton has long been a devout Presbyterian. He sponsors the Templeton Prize for Progress in Religion, which gives away more than \$1 million annually to religious innovators. Most of his \$440 million take in the Franklin deal is already earmarked for 30-odd charities.

Don't take Templeton's rampant optimism about the future of the global economy as a cue to rush into the market. These days, the point of maximum pessimism isn't on the Big Board (table). Investors have bid away the obvious bargains there already, he says. He predicts that the Dow Jones industrial average has a "fifty-fifty" chance of hitting 6000 by the year 2000—only a 7% average annual increase. But Templeton still has plenty of ideas about where to invest. And if Franklin investors are lucky, he'll pass some on before he goes.

By Ron Stodghill II in New York



"EXTREMELY PATIENT" TEMPLETON

TEMPLETON'S TIPS

ALUMINUM STOCKS Russia now is dumping aluminum on the market, but once this extraordinary event is past, aluminum shares could then start to rebound

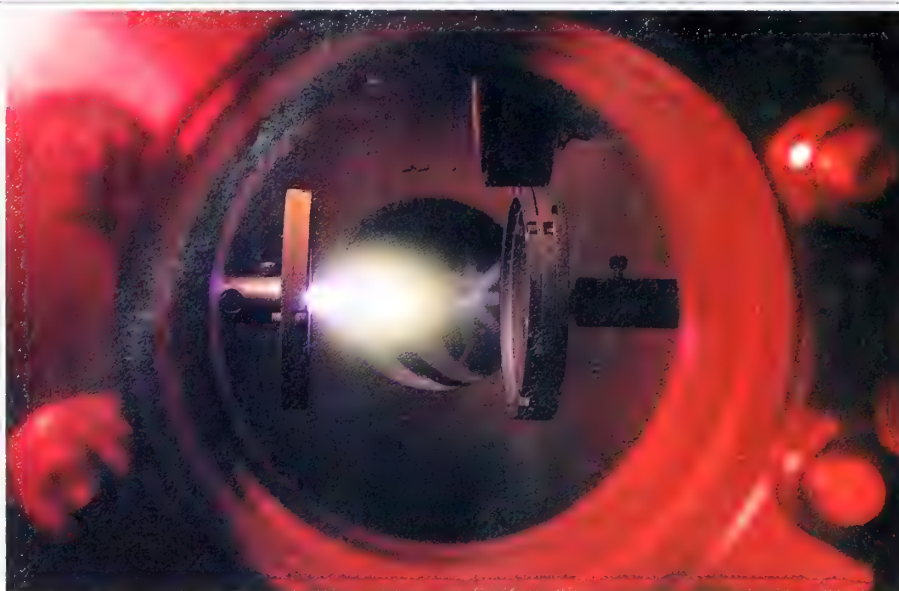
AUSTRALIA Bank stocks there are trading around four times earnings, while those in North America go for upwards of 18

NEW ZEALAND Share prices are one-third prior levels as the nation struggles through a long economic slump. But it boasts a highly educated population and lots of natural resources

PRECIOUS METALS Investors often flee toward gold and its cousins in uncertain times. But with global tensions easing, there's little reason to invest in them

REAL ESTATE Hardly a bargain yet, except in markets that have been thoroughly depressed: Houston, Dallas, and South Florida

DATA: BW



HOT SPOT: ACHIEVING SUPERCONDUCTIVITY AT 180 DEGREES WARMER THAN CURRENT METHODS

SUPERCONDUCTING SPEEDS TOWARD YOUR DESKTOP

With STI's chip package, superpowerful PCs may not be far behind

It took a while, but the explosion of research that followed IBM's 1986 discovery of high-temperature superconductors is on the verge of paying off. On Aug. 10, Superconductor Technologies Inc., a Santa Barbara (Calif.) start-up founded in 1987 to harness the new technology, is set to unveil a prototype of the world's first superconducting "package" for computer chips. "It's clearly a good first start in exploiting high-temperature superconductors in electronics," says Richard E. Harris, a group leader at the National Institute of Standards & Technology's superconductor research laboratory in Boulder, Colo. High temperature, in this case, is relative. The material that STI uses for its chip package—a thallium-based compound developed at the University of Arkansas—becomes superconducting around -270F. Still, to physicists, that's a lot warmer than the -450F normally required for superconductivity.

THIMBLE THERMOS. That warming trend is big news to the computer industry, since it brings computer makers a major step closer to producing business machines that are 10 to 100 times faster than what's available today. Indeed, those speedy new machines could be commonplace commercially within a decade, some experts predict.

To the military, such cryogenic elec-

tronic systems—those that are cooled to -321F—have already become old hat. Almost every major weapons system, from Bradley fighting vehicles and M-1 tanks to F-14 fighters, carries a "cryo-electronics" component, sometimes produced by STI. "There are plenty of systems out there today, maybe 300,000, that operate at cryogenic temperatures," says James G. Bybokas, STI's vice-president for product marketing.

The technology faced harsh field tests in the gulf war. Many of the military's high-tech weapons, including night-vision systems, work only when cooled to cryogenic temperatures by tiny high-tech refrigerators—some no bigger than a flashlight.

Now, the challenge is to make the supercold, superfast technology cost-effective enough to use in commercial computers. That's beginning to happen, thanks to pioneering work in the technology by the Defense Advanced Re-

DARPA is pouring cash into the effort, hoping to boost the speed of military electronics by a factor of 1,000

search Projects Agency. DARPA is pouring money into superconductivity research, hoping to boost the speed of military electronics by a factor of 1,000. Advances of that magnitude may be possible only by putting chips in superconducting packages.

TIGHT PACKAGE. That's where Superconductor Technologies' development comes in. The company's achievement revolves around a new way of packing multiple chips into a single, tiny package called multichip module (MCM). Until now, advances in computing speed have stemmed mainly from etching thinner circuit lines on silicon chips. Smaller lines mean the maze of circuitry can be crunched closer together, so electronic signals have shorter distances to travel on each chip.

Soon, though, just shrinking the circuit lines on individual chips won't be the trick. The signals may take only a few billionths of a second to shoot across the gap between chips mounted on circuit boards, but that's too slow for tomorrow's superfast desktops. MCMs get around this bottleneck by butting chips together inside the same package. Big computers have used this technique for years—with telling results. Digital Equipment Corp. says its VAX 9000 mainframe runs twice as fast with MCMs, each housing as many as 76 chips, than it would without them.

STI has a powerhouse team of scientists working to make the technology both common and inexpensive. Many of them are researchers at the University of California at Santa Barbara—including J. Robert Schrieffer, a physicist who shared the 1972 Nobel Prize in physics for his 1947 work in superconductivity.

To fund its research, STI last November got a share of the latest DARPA morsel for the field: a \$10 million, three-year program to develop superconducting MCMs. Headed by E-Systems Inc. in Las Vegas, the effort involves a consortium of universities, national laboratories, and companies. MCMs may not be the stuff of everyday discourse, but they clearly enjoy broad support on Capitol Hill. Congress virtually doubled the project's funding in January, to \$19.5 million.

Now, since STI produced a working prototype so rapidly, DARPA hopes to plow still more money into the program. Senator Dale L. Bumpers (D-Ark.) says he will support an increase in funds. MCMs, he says, could "exert a profound influence" on the future competitiveness of the U.S. With the electronics industry battling for U.S. markets that some estimate will reach \$1.3 trillion by 2000, superconducting at -321F sounds positively sunny.

By Otis Port in New York

VILIGHT OF THE AINFRAMES

r 28 years, IBM's biggest
it-maker is finally peaking

s just the news Wall Street didn't
ant to hear. But on Aug. 5, there it
as: Nicholas M. Donofrio, head of
\$14 billion mainframe-processor
ess, fleshed out earlier warnings
company officials: Revenues for the
prise Systems Div. will essentially
flat through 1994—if not longer.

e implication: IBM's mainframe sys-
business, based on a design und-
d in 1964 and still the source of
t 60% of IBM's total profits, has
ed at last. IBM bulls had counted on
more year of good growth from the
t mainframe, the ES/9000 proces-
which Big Blue began shipping last

But after Smith Barney, Harris
m & Co. changed its IBM rating
"buy" to "hold" and Donofrio
e the bad news later that morning,
stock dropped 2.8%, to 91% (chart).

Donofrio didn't say so, but matters

SELLS OFF



may not improve
even after 1994.
Large customers
are using fewer
mainframes in
fewer data cen-
ters. Sales of
IBM's mainframe
disk drives have
stalled as custom-
ers wait to evalu-
ate a cheaper
model they soon

et from IBM. Mounting competition
large-systems rivals Amdahl Corp.
Hitachi Data Systems Corp. means
price discounting that has reached
on some deals will only grow deep-
and such competitors as American
phone & Telegraph Co.'s NCR unit
preparing radically new mainframes
will do much more work for less
y than current IBM models.
ll, Donofrio told analysts he's confi-
of reaching his goal of a 24% pre-
profit margin by 1994, up from 16%
year. But not by rolling out technol-
al marvels. While IBM's PC unit pre-
to revamp its hardware and orga-
nizational chart (page 99), he'll cut sales
administrative payrolls and throttle
on research and development
ling. That sounds like a strategy
getting the most out of a mature
ess. IBM mainframes, it appears,
officially matured.

By John W. Verity in New York



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WHY NBC'S 'TRIPLECAST' NEVER MADE A RUN AT THE GOLD

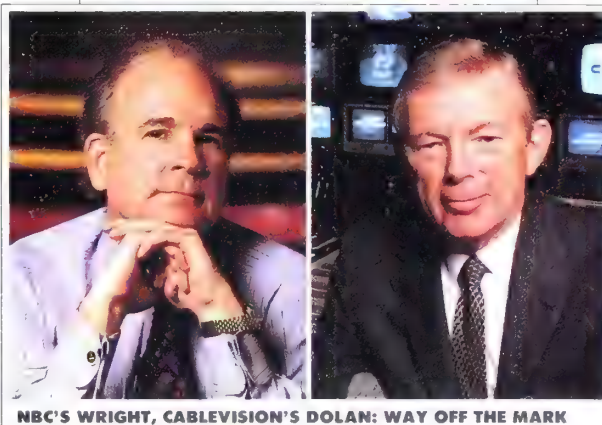
Too few had the hookup, station owners balked—and it cost too much

For just one moment, pity NBC Inc. The network has rolled up remarkably strong ratings for its broadcast coverage of the summer Olympic Games in Barcelona. And defying the oddsmakers on Madison Avenue, it managed to sell virtually all the ad time on its wall-to-wall schedule. Yet as the Games ended, NBC was being counted as a spectacular loser: The network's controversial pay-per-view telecast bombed so badly with viewers that it overshadowed even the polished performance of NBC Sports anchor Bob Costas.

NBC had billed the "TripleCast" as a way to stretch the boundaries of sports programming. In addition to regular network coverage, viewers would pay \$125 to receive commercial-free, round-the-clock coverage on three cable channels. NBC and its partner, Cablevision Systems Corp., would use the revenue from an estimated 2.5 million subscribers to defray the \$401 million NBC paid to buy U.S. rights to the games.

COLD COMFORT. Instead, NBC and Cablevision lured only 250,000 homes for the TripleCast. And both partners are losing millions: NBC, a subsidiary of General Electric Co., wouldn't cite a figure. But Nicholas Heymann, an analyst at County NatWest USA who follows GE, says NBC could lose \$60 million to \$70 million on the pay-per-view venture. Cablevision says it may lose \$50 million. "It's a disaster all around," says Jessica J. Reif, an analyst at Oppenheimer & Co.

Well, not quite. One NBC insider says the network would have lost \$100 million if it relied purely on ad revenue to cover the \$401 million rights fee. And NBC spokesman Joseph Rutledge says its heavy promotion of the TripleCast actually boosted the network's broadcast ratings. That's welcome news to such major Olympic sponsors as Coca-Cola Co. and Visa USA. The biggest danger facing



NBC'S WRIGHT, CABLEVISION'S DOLAN: WAY OFF THE MARK

sponsors in these Games was getting lost in a blizzard of corporate logos (table). That's cold comfort to NBC, though. Its advertising success pales next to the failure of the pay-per-view venture.

How could supposedly savvy media executives be so far off the mark? In hindsight, the answer is simple: NBC and Cablevision were trying to peddle a concept that was hobbled from the outset by both technology and the conflicting agendas of broadcast and cable television. It is a case study in how to

fail while pioneering a new strategy. For starters, not enough TV households had the technology to receive pay channels. Then, NBC and Cablevision executives didn't anticipate that both network affiliates and cable operators would regard TripleCast more as a threat than an opportunity. Most important, the two partners priced the pay-per-view package too high for all but the most addicted of armchair jocks.

'ALLIGATOR PIT.' Rutledge says the TripleCast was undermined by industry skepticism and negative media coverage. But the network-cable conflict should have been clear from the start. To assure NBC affiliates that the TripleCast wouldn't undercut their ratings, President Robert C. Wright initially

threw in key events, such as Greco-Roman wrestling. But as sales faltered, NBC threw in key events, such as basketball and gymnastics, which were also on the network. Affiliates were livid—and some refused to promote the TripleCast.

Even so, some cable executives say that the service flopped because it didn't offer enough sought-after events. "NBC was attempting to walk a tightrope," says John C. Severino, president of Prime Ticket, a regional sports network based in Los Angeles. "They slipped and fell into an alligator pit."

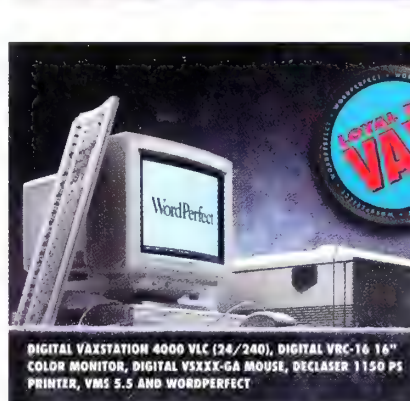
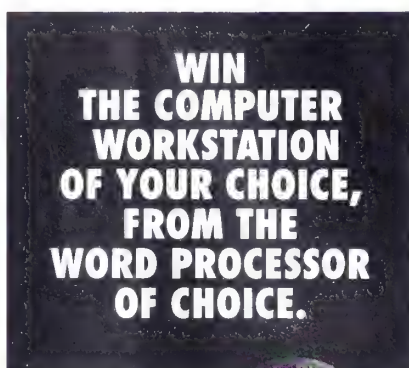
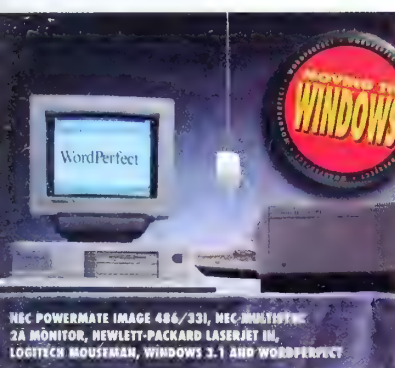
To make matters worse, cable operators balked at clearing the capacity to carry all three channels. Some cable operators ended up clearing just one or two. What's more, only two-thirds of the 60 million cable households can receive pay-cable channels. And of these, only half can order the channels on demand. So, just 20 million TV households were able to make the impulse decision NBC said would drive most buys.

That number was shrunk even further by the stiff price tag. Only when s

MARKETING MEDALISTS

Advertisers are tickled pink that NBC's Olympics broadcasts have drawn such high ratings. But what color medals do the advertisers win from viewers? Our judges are pleased to announce the following awards:





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Additional Fees per Transaction	None	\$4.85	\$3.85	\$2.35
Commission 100 Shares @ \$30	\$55	\$85	\$83	\$83
Commission 500 Shares @ \$20	\$110	\$238	\$246	\$230

*Fee is 2% of balance with a minimum of \$35 and a maximum of \$100.

†Survey conducted by Charles Schwab & Co., Inc. July 1992.

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Top of the News

ups lagged badly did the partners agree to offer a daily rate of \$29.95. They slashed the price to \$19.95 after Cablevision Chairman Charles F. Dolan took an informal poll of cable operators at a reception aboard a Royal Viking Line cruise ship in Barcelona during the games and found they were desperate to reduce the fee. That irked NBC affiliates even more: "I wouldn't have taken any

pleasure in seeing it succeed," says James B. Waterbury, president of NBC's affiliate-relationships board and general manager of KWWL-TV in Waterloo, Iowa.

For NBC, the fiasco mars an otherwise brightening financial picture. Heymann estimates NBC will earn \$245 million in 1992. But he says the core network will lose about \$20 million, largely because of the TripleCast. That's another head-

ache for Wright, who last season watched NBC lose its ratings crown to CBS Inc. Dolan, for his part, stresses that this experience will help future pay-per-view ventures. He says he even asked Wright if he'd like to try a TripleCast for the 1996 Olympics in Atlanta. Wright's reply? He'll get back to him.

By Mark Lewyn in Washington, Mark Landler in New York

INNOVATIONS

BIG BROTHER, PINNED TO YOUR CHEST

IDs that track employees offer efficiency—but what about privacy?

Alarms do not go off when Andy Hopper ducks out of his Olivetti Research Laboratory office in the middle of the afternoon, nor do red lights flash. Just the same, within 15 seconds of his departure, any colleague who checks the employee-tracking data base at the lab in Cambridge, England, will discover he's gone. Not only that: By tapping into the data base from afar, any of the 5 million users of the worldwide Internet computer network—utter strangers, even—can find out that Hopper has hopped. When he's in the office, inquisitors can usually find out when he has visitors—and exactly who they are.

Hopper, director of the Olivetti lab, willingly sheds his privacy each day when he puts on his "active badge," a computer in the shape of a clip-on ID card. The badge signals its wearer's location by sending off infrared signals, which are read by sensors sprinkled around a building. The sensors, in turn, are wired to a computer, which collects the information and distributes it over a network.

LONG SHOT. So far, only 400 or so people wear active badges daily—all in research centers in Britain, Italy, and the U.S. But Hopper says that by late this year or early next year, Italy's Olivetti, which holds the basic patent, will begin selling active-badge systems commercially. While prices haven't been set, Hopper says the systems don't use any costly new technology. Ask Hopper how many people will be wearing active badges in 5 or 10 years and he says: "Everybody."

Unlikely. Still, it's a good bet that active badges will find a place among the growing array of technologies that label

and track people in their daily activities. Already, global positioning systems keep tabs on cross-country trucks. And cellular phone systems act as tracking systems, since they must pin down the approximate location of every customer to deliver incoming calls via the closest antenna.

But as the use of such systems spreads, government and business increasingly will be challenged to balance the individual's right to privacy with cor-



porate desires for efficiency and control. Employees, after all, don't want to feel like house-arrest convicts whose bracelets trigger alarms when they stray from home—a primitive predecessor to active badge technology. Nobody understands that better than Roy Want, who invented active badges in 1988 while at Olivetti. "It's great technology in the right hands," says Want. "But if you've got a bad manager, he's going to make your life hell."

Active badges can make workaday life a lot simpler. By knowing when someone's tied up in a meeting or out, for instance, colleagues can avoid interrupting each other or making wasted phone

calls and trips to empty offices. At Olivetti's Cambridge lab, among other places, incoming calls ring on the phone nearest the intended recipients, whether they happen to be.

At the Media Laboratory of Massachusetts Institute of Technology, electronic doors unlock automatically for privileged badge wearers. Digital Equipment Corp., which helps fund Olivetti research, this year showed a prototype system of active badges for doctor's hospitals. And there's no reason active badges couldn't be hooked to, say, heart monitors of coronary patients so they could stroll the halls and be found quickly if their pulses go awry.

WHO SAYS NO? Meanwhile, fertile minds are working on technical ways to safeguard badge wearers' privacy. At Xerox Corp.'s Palo Alto Research Center, researcher Want and others are developing ways for wearers to limit the number of people who have access to information generated by the badge. And no one at any of the research centers is required to wear a badge—a coming thought for those who sneak out to Jack's Polo lifting Salon at 3 p.m.

But there's one big problem with the safeguard: The more that wearers are allowed to limit the information coming from their active badges, the less workable the systems become. For instance, if only one

four people in a room is wearing an active badge, there's no way to tell if a meeting is going on. The result? Many employers are bound to try mandatory badge use. That could lead to a legal brawl.

If active badges catch on, it won't be the first time society surrendered privacy for convenience: Millions of Americans have laid their shopping lists bare by using credit cards. Without enough safeguards, active badges could turn out to be more helpful than helpful. Still, it must be said, they're not the Greta Garbos of the world who just want to be alone.

By Peter Coy in New

BY HARRIS COLLINGWOOD

IPO FEVER

Stock issuers raised \$19.7 billion in the first half, setting a record that should easily exceed the \$25.5 billion raised in all of 1991. Yet stocks that went public in the period fell an average of 11% by the second quarter's end. Here's how the five best- and worst-performing IPOs fared:

	PERCENT CHANGE
AMCORP	123.1%
STAR STEAKHOUSE	100.0
CELL	74.2
TRANSACTION SERVICES	64.9
OPSYS	55.6
	PERCENT CHANGE
KIS	-60.0%
RX PHARMACEUTICALS	-60.0
POWER	-60.0
THOMETER	-59.8
COR	-54.5

DATA: STANDARD & POOR'S CORP

PHAR-MOR CALLS IN THE FEDS

An alleged \$350 million drug and embezzlement scheme is rocking Phar-Mor, a growing \$3 billion discount-drug chain, not to mention the sporting world. The company says it has disavowed founder and President Michael Monus and Chief Financial Officer Patrick Finn, and asked federal authorities to investigate the matter. Phar-Mor, a privately held company in Dayton (Ohio), says it will take a \$350 million charge to cover overstated earnings. Monus was not available for comment, and his lawyer wouldn't discuss the situation. The company further alleges that Monus diverted funds to the now-defunct World Basketball League, which he founded. The scandal also touches Major League Baseball's Colorado Rockies expansion franchise, as Monus and his father were

limited partners in the Denver-based Rockies, though they resigned from the club on July 29. The Rockies say their operations will not be affected. MLB did not return calls seeking comment.

MILKEN GETS A ONE-YEAR REPRIEVE

► After months of legal wrangling, a federal judge in New York on Aug. 5 agreed to reduce Michael Milken's jail time by 12 months. Barring a sudden change for the worse in his conduct, the dethroned junk-bond king will be freed from a federal penitentiary in Northern California on Mar. 3, 1993, when he would begin three years of full-time community service.

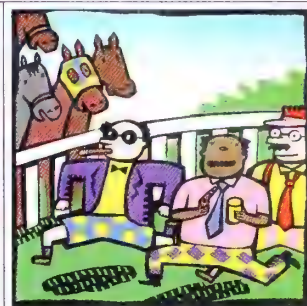
In her 14-page opinion, U.S. District Court Judge Kimba Wood cited Milken's "substantial" cooperation with prosecutors—especially his help in winning a conviction of Alan Rosenthal, a former colleague at Drexel Burnham Lambert. The judge also noted Milken's cooperation with the Securities & Exchange Commission—despite an unusual letter from the agency blasting Milken's testimony as yielding "few concrete results."

Other issues that swayed the judge include Milken's tutoring of fellow inmates, his role in settling scores of private lawsuits and claims against him and other former

HERE THEY COME, WHEEZING AROUND THE TURN

It's August, time for all good New York horse-racing reporters to decamp northward along the Hudson River to Saratoga. There, they'll enjoy racing in sylvan surroundings, feast on the fried chicken at Hattie's Chicken Shack, and pursue the time-honored sportswriting traditions of drinking and smoking—which is their idea of training for another hallowed Saratoga event, the 17th annual Socolof Gold Cup, set this year for Aug. 14.

Pete Socolof, whose job as a New York City art dealer leaves him lots of time to hang around the track, gets his kicks watching middle-aged bipeds struggle around the oval where Thoroughbreds more often make their way. Winners, usually track personnel in better shape than the writers, finish the mile and an eighth in six minutes and change, while also-rans stagger home about three minutes later. Has Socolof ever raced? Not a chance, he says. "I'm not fit to go 50 yards."



Drexel employees, and illness in his immediate family.

LIGHTS OUT AT CHILD WORLD

► Toy retailer Child World is shutting its doors for good. On Aug. 4, Chairman John Devine said he'll close the toy supermarket's 71 remaining stores in early September. The move comes after merger talks with Lionel broke down and bankers refused requests for loans. Devine, a former top Toys 'R' Us executive, was brought in last year by new owners to rescue the retailer after a disastrous 1990

Christmas. Last year's Christmas sales again came in well below expectations, and Child World sought Chapter 11 protection in May.

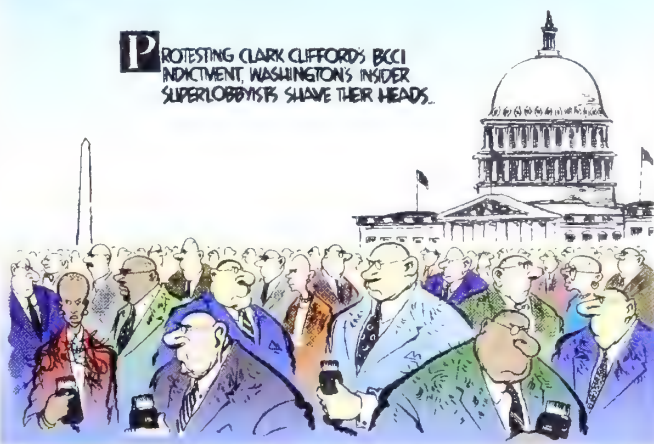
LAST CALL ON LTV'S ASSETS

► Just when it looked as if Loral and Carlyle Group had snagged LTV's missile and aircraft divisions for \$430 million, an offer from Martin Marietta opened a new phase in the battle of the defense giants. Early this year, Martin had teamed with Lockheed to offer \$385 million for the LTV units. But Martin on Aug. 3 unveiled a \$440 million offer that surpassed Loral's. Hours later, Loral and Carlyle, a Washington investment boutique, bumped their bid to \$445 million.

A bankruptcy judge could determine the winner of the LTV businesses at an Aug. 13 court hearing in New York. The hearing will basically end up as "an auction," says Loral Chairman Bernard Schwartz, though he won't say whether he will raise his company's bid. He doesn't see any evidence that other bidders are interested, so it may come down to Loral vs. Martin at the meeting.

QUINN THE OREGONIAN DINES A TALK

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HEALTH CARE: DR. FEELGOOD AND R. STATUS QUO READ THE VOTERS' PULSE

Reading opinion polls on health care is like gazing at clouds: With imagination, you can see just about anything. So it's no wonder that President Bush, who favors minimal federal intervention in the health system, and challenger Bill Clinton, who wants radical surgery, both think they've latched onto a winning issue. But with voters confused about health care options, the candidates are carefully test-marketing their reform ideas.

The differences in the two approaches are stark. Bush would provide new tax breaks to let families buy insurance and would rely on market forces to control costs. Clinton wants to require employers to make benefits available to workers. And to hold down costs, Clinton would set a yearly cap on national health care spending and require states to negotiate fees with doctors and hospitals.

Each candidate has cause to think he has chosen the popular course. A joint survey by Democratic and Republican pollsters found that 60% of the public favors a government-run health care system. However, in response to another question, the same percentage expressed support for a private insurance system. Elsewhere, 67% felt the current system needs significant changes; then 71% expressed satisfaction with the status quo.

IG LINES. Until recently, it looked as if the Bush campaign planned to steer clear of the issue, fearing that the Democrats would always out-promise them. Indeed, the Democrats quickly put the White House on the defensive, blasting Bush's February proposal for its failure to provide universal coverage and for doing too little to control costs. Most polls showed the public leans toward Clinton's prescription. But Bush campaign chairman—and sometime pollster—Robert M. Teeter saw an opening. Focus groups he conducted found that voters wanted relief from soaring costs. So they worried that reform could bring long lines, inferior

health care, and a restricted choice of doctors. So on Aug. 2, Bush attacked. In a Clinton Administration, he declared, "the government will run health care in this country, and our health care system will combine the efficiency of the House Post Office with the compassion of the KGB."

In the heat of a campaign, it may not matter much that Bush is attacking proposals that Clinton hasn't made. For example, the President claims the Clinton plan includes a 7% payroll tax,

but the Arkansas Democrat hasn't offered a financing mechanism yet. The goal is to paint Clinton simultaneously as an advocate of socialized medicine and as a tax-and-spend Dr. Feelgood. Democratic reform plans, says White House health care specialist Gail R. Wilensky, mean "a new government mandate, new government taxes on small business. And that's the worst thing we can do in order to promote economic growth."

NOISE. Clinton isn't taking this lying down. He has blasted Bush for doing "next to nothing to provide health insurance to every American and nothing to control health care costs." The Democratic nominee plans to keep the issue at the top of his agenda. GOP attack dogs, says top Clinton aide Mickey Kantor, "want to throw the discussion back at us because they don't have a plan of their own. We are more than delighted

to have this debate." Clinton aides will fill in some details, but Bush's barrage makes it unlikely that he'll say how he would finance expanded coverage.

Such political exigencies mean that the health care debate will mainly produce noise. "I had hoped that the issue would crystallize," says Drew E. Altman, president of the Henry J. Kaiser Family Foundation, which funds health-policy research. "But it will be a sea of sound bites with no reality." With voters deeply divided by the issue, there's little reason to expect better.

By Susan B. Garland with Douglas Harbrecht



CLINTON: HAPPY TO DEBATE THE ISSUE

FISCAL WRAPUP

THE BUDGET

When Congress got to work on 1993 spending bills, many on Capitol Hill predicted this was the year that lawmakers would finally get serious about knocking some expensive items out of the deficit-swamped budget. And the leading targets were two Big Science projects: the \$8.2 billion superconducting supercollider and a \$30 billion manned space station. But both threatened projects now appear safe, dashed hopes for progress in cutting the deficit anytime soon.

Foes of the supercollider scored an initial victory on June 17, when the House overwhelmingly voted to kill the

project. Then, lobbyists pulled out the stops, promoting the \$8.2 billion Texas particle accelerator as both a great scientific advance and a terrific jobs program. So, on Aug. 3, the Senate resoundingly reversed the House action, and the House is now expected to give in. Meanwhile, facing pressure from a broad coalition that included both Vice-President Dan Quayle and his would-be replacement, Senator Al Gore (D-Tenn.), the House lost its antiscientific-pork fervor and voted on July 29 to continue space-station funding. Budget-cutters promise to make another try next year, but odds are good that both programs will continue, which bodes ill for cuts in other big-ticket projects.

INCUMBENTS

Voters seem to have learned how to toss incumbents out of office, with Republican Representatives Guy Vander Jagt of Michigan and Dick Nichols of Kansas being the latest to be bounced in primaries. But that hasn't slowed the momentum of the term-limitation movement. This fall, voters in eight states, including California, Florida, and Michigan, will decide ballot questions limiting the terms of U.S. House and Senate members. Referendum petitions await certification in five other states, including Missouri and Arkansas, and sponsors in Ohio and North Dakota are circulating petitions.

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WILL PHILIPS SELL THE WORLD ON THE VCR OF THE FUTURE?

Despite setbacks, it's ahead in CD-interactive players. And it's gambling heavily that it can stay there.

It was another blow to Europe's beleaguered consumer-electronics giant. In mid-July, Gaston Bastiens, the top executive heading up Philips Electronics' crucial push into multimedia players and programs, abruptly quit to take a better offer at Apple Computer Inc. The defection occurred just as Philips faces perhaps the toughest marketing challenge in its 100-year history: convincing the world that its new Imagination Machine will become the VCR of the 21st century.

It's a high-stakes game. The Imagination Machine, formally known as compact disk-interactive (CDI), is among the few critical products that Philips Chairman Jan D. Timmer is counting on to revive the Dutch giant's depressed earnings. It is also central to Philips' strategy to transform itself into a Sony-like company that derives much of its profits from entertainment programming. If Philips succeeds in getting its share of this megabucks market, it may well hang on to its tenuous place as the West's leading consumer-electronics company. But if it fails, it risks sliding into the industry's second tier.

STILL SMARTING. The new device has been in U.S. stores since last October and in Japan since April. A European launch is scheduled for September. Potential rivals such as Apple and IBM are still pondering their strategies. With a headstart, "Philips has an important opportunity to lead the way in a whole new genre," says Stephen Reynolds, media analyst at Link Resources Corp.

Philips insists that Bastiens' departure won't change its CDI strategy or stall the product's rollout. "We're determined to keep the lead against competing for-

mat," says Henk Bodt, head of Philips Consumer Electronics. Problem is, Philips has never been known for whiz-bang marketing. Executives there are still smarting from Japan's runaway hits in the 1980s with VCRs and compact-disk players—both Philips inventions.

So the choice of a successor to Bastiens will be crucial, because Philips can't afford to blow it this time. After putting the company through a radical restructuring that has axed 45,000 jobs since 1990, Timmer finds still more trouble. Stagnant demand and bloody price

wars are slashing profits throughout the industry. When the \$32 billion giant's first-half results were announced on Aug. 6, analysts expected profits to plunge about 50%, to \$55 million.

Between the earnings slide and other surprise personnel shakeups, Philips stock has sunk 35% since mid-June to about \$15, losing the ground it gained in the last year. "Investors have lost patience," says London analyst James G. Warburg Securities.

That's not all. On July 30, Philips announced that it found unexpected big-



PHILIPS' HOPES FOR CDI

The CDI machine will:



Call up sports statistics during live broadcasts



Display Kodak's new digital snapshots



Play JVC's karaoke sing-along disks



Use Nintendo's new games



Play movies and music videos

DATA PHILIPS, BV

its digital compact cassette, another technology bet—one that the company hopes will succeed today's audio cassettes. The delay will wipe out the lead for a competing Sony Corp. audio format for the Christmas selling season. A successor to the CD, the CDI player looks into a TV to display programs mixed with stereo sound, graphics, photos, text—and eventually video—stored on optical disk. The software lets users interact with programs, rather than just watch them.

A disk from ABC Sports Inc., for example, leads you on a tour of the 18 toughest golf holes in Palm Springs, Calif. With the click of a remote control from a menu of on-screen options, you select a player's hole and club and determine the angle and speed of his swing. ABC sportscasters narrate the play. Clips counts about 300 such titles in production—two-thirds from its own studios.

But Philips faces a tough job persuading consumers to shell out \$799 for the player and \$19 to \$59 per disk. The CDI investment, estimated at \$250 million, won't return much profit for at least five years, figures Warburg's Golob.

HTS, CAMERA. To hedge its bets, Philips has gone on a dealmaking spree recently to hook a wider audience for CDI titles. While executives hint that first-year sales in the U.S. should hit 35,000 units, meeting Philips' modest targets, making it a big hit depends on persuading outside producers to create programming. Big-name independents are mostly holding back major CDI investments until they see more player sales.

Japanese leaders Matsushita Electric Industrial Co. and Sony both have delayed marketing a consumer version of CDI because development of Japanese programs has been slow. So Philips is stuck shouldering the high costs of creating consumers. Philips also may have a format brawl: Apple and Toshiba are rumored to be readying their own multimedia machine, and so is Sony Corp. The Tandy attack especially stings since it recently dropped CDI from its U.S. Radio Shack stores after only one season, due to poor sales.

Philips hopes to rally program production around CDI before other standards take root. Retailers are also hopeful about a first-time U.S. TV ad blitz planned for Christmas. "This thing appeals to anyone from crib to crypt," enthuses Stanley M. Grossman of New York's Sixth Avenue Electronics Inc., which has sold 600 CDIs since October. The bosses at Eindhoven headquarters are so. Otherwise, another big opportunity could pass them by.

By Jonathan B. Levine in Paris, with Catherine Arnst in New York and Neil Ross in Tokyo



JAPAN

HONDA SETS ITS SIGHTS ON A DIFFERENT CHECKERED FLAG

To excel in the race to cut emissions, it may drop out of Formula One

The theme was green at the Tokyo Motor Show last fall, as carmakers vied to introduce their most advanced environmentally friendly technology. But all the shrieking and applauding at the jam-packed Honda Motor Co. booth wasn't over its experimental single-file two-seater, or even its bug-shaped solar-powered car. It was for Honda's high-profile Formula One race-car drivers.

Honda's Formula One engines have powered the Honda McLaren Marlboro team to seasonal championships for six years running, sealing Honda's reputation in Japan as an innovator and recharging company morale. More important, Honda's foray into racing has proven a fertile training ground for brainy engineers and spawned such technologies as the more efficient variable valve-timing system, which now shows up under ordinary Honda hoods.

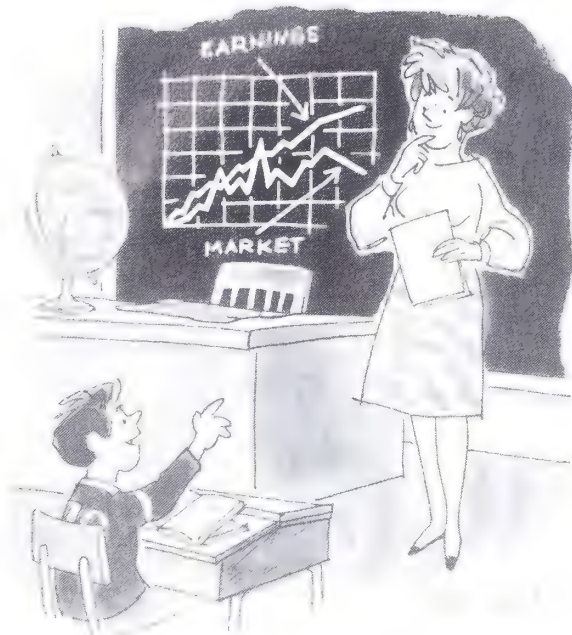
Why, then, does President Nobuhiko Kawamoto say he may withdraw from the track when this season ends on Nov. 8? It's that color green again: Kawamoto wants to focus top talent on super-strict emission requirements looming in California and elsewhere. He thinks adding 100 or so engineers to the 600 already working on more fuel-efficient

gasoline engines and electric vehicles, plus the estimated \$80 million saved, may give Honda an edge. He'll decide as early as mid-September whether to scrap the immensely popular team for the longer-term payoff of an environmental edge. "We may have to make some sacrifices," Kawamoto says.

BEST BET. He's not alone. All auto companies are up against lawmakers so eager to clear the smog that they're setting targets that are unattainable with existing technology. By 1998, for example, 2% of each manufacturer's cars sold in California must have zero emissions, 10% by 2003. Carmakers figure electric vehicles are the best bet for zero emissions, but a gradual squeeze on all tail-pipe emissions may soon require alternative-fuel vehicles as well. In the U.S., the Big Three and federal agencies are jointly spending \$260 million over the next four years to come up with batteries that can power a commercially viable electric car.

That's why the pressure is on. "I need more engineers," says Hideyo Miyano, head of engine development. "We don't have much time." Miyano sees gasoline-powered cars hogging the road for two more decades, so he's putting 67% of his budget into improving gas engines, 28% for electric

With California's deadlines, 'we don't have much time,' says Honda's engine chief



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vehicles, and the remaining 5% for near-far-off possibilities, such as hydrogen and methanol. Last year, Honda introduced a lean-burn engine on some Gi models that emits fewer oxides of nitrogen. But it's only effective on engines up to two liters.

It wouldn't be the first time Honda quit the racing track. It pulled out of Formula One in 1968 after five seasons to focus its brainpower on newly tightened U.S. emissions standards. Then when it came up with the breakthrough CVCC engine that met the standard without requiring a catalytic converter, Honda reentered the Formula One circuit in 1983, with little damage to its reputation since it was then more known as a motorcycle maker.

A repeat retreat risks tarnishing Honda's hot-rodder image in Japan, where unit sales are off 8.6%. Honda doesn't want to let go of that aura—it builds the aluminum \$60,000 NSX supercar, even though it makes only five a some days, 10% of last year's peak. Its engineers who would flock to Honda's a crack at designing racing engines go elsewhere.

SPEECHIFYING. Ironically, Kawamoto probably wants to continue racing more than anyone in the company. His early years at Honda were spent in the designing and fine-tuning engines as Honda raced in its own chassis. When Honda quit Formula One in 1968, Kawamoto was so furious he didn't show up for work for two months until then-President Tadashi Kume coaxed him back. "Making this decision must be ripping him up inside," says Miyano.

Painful as it is, Kawamoto has been laying the groundwork since becoming president in 1990. That year, he gave speeches to Honda employees in which he admitted he would go so far as to stop racing if it were necessary to lead ahead in the race for cleaner engines.

Even more excruciating for Kawamoto, pulling out now could make him look like a sore loser. Honda's two-wheel team has won only two of 10 starts in the 16-race season that began March. Kawamoto confesses that if he had to leave the racing world, he wants to do so in a blaze of glory. When he visited engineers at Honda's research-and-development lab recently, he expressed his dismay at the season's record. "I went up there and yelled: 'What are you doing?'" says Kawamoto, pounding his fist in his hand.

It may be hard to get pumped up by CO₂ levels after the thunder of a 50-horsepower machine. But whether Kawamoto walks away from his passion or not, he's in a race where the stakes are far higher.

By Karen Lowrey Miller in Tokyo, to bureau reports

AN JAKE FRENKEL WORK MIRACLES IN JERUSALEM?

The Chicago School economist must radically revamp Israel's economy

Those who can, do; those who can't, teach. That may be true for some, but not for Jacob A. Frenkel. A renowned University of Chicago-trained free-market economist and former research chief for the International Monetary Fund, Frenkel, 49, has authored 15 books and more than 200 articles in his 15-year academic career. But since becoming Governor of the Bank of Israel last year, Frenkel has been making policy, not just analyzing it. "It's very different," he says. "You can see the immediate impact of your decisions."

No kidding. In the warming of relations following Israel's recent change of government, George Bush and Israel's

new Prime Minister, Yitzhak Rabin, are meeting in Kennebunkport, Me., Aug. 11 to close a deal worth about \$10 billion in U.S. loan guarantees for the Jewish state. For Frenkel, the proposed guarantee, allowing Israel to sell as much as \$10 billion in bonds at favorable rates, is the keystone of his plan to radically restructure the Israeli economy. "It's a once-in-a-lifetime opportunity," says Frenkel, an Israeli native and one of the most visible backers of the loan scheme.

SAYING NO. Behind-the-scenes bargaining by Frenkel—a consummate diplomat whom his friends call Jake—helped set the stage for the planned Bush-Rabin deal. But the plan is hardly the only thing on Frenkel's agenda (table). Burdened by money-losing state industries and double-digit inflation, Israel is failing to generate enough economic growth to cope with the hundreds of thousands of new immigrants from the former Soviet Union. "Frenkel faces the hardest challenge anyone in Israel can face," asserts Rudiger Dornbusch, the Massachusetts Institute of Technology economist and a former Chicago classmate of Frenkel's. "He has to say 'no.'"

The soft-spoken central banker has

had to do that again and again in the year since former Prime Minister Yitzhak Shamir persuaded Frenkel to return home. Within months of his arrival, Frenkel was faced with a speculators' attack on the shekel. He quickly instituted an innovative plan that gradually devalues the currency along predetermined lines and holds the government to tough anti-inflation guidelines. The plan is credited with cooling inflation to around 10%, from 16% last year. "He's tough," says Dornbusch. "It was a textbook case." Frenkel now is warning Rabin's Labor-led government against a quick-fix devaluation to spur exports. "The game plan," he says, "should be a mul-



FRENKEL: NO TIME FOR SCHOLARLY WORK

FRENKEL'S ECONOMIC GOALS

- ▶ Reduce inflation from last year's 16% to the 3.5% level of Israel's trading partners
- ▶ Open protected financial markets to foreign competition and allow citizens to open bank accounts abroad
- ▶ Get state to slash spending on housing and wages and boost outlays for transportation, telecommunications, education

DATA: BW

tiyear program. There should be no compromises, either in the budget or in [carrying out] a massive exit of government from the marketplace."

Frenkel, who supported Rabin's plan to freeze construction of West Bank settlements even before his election, appears to be making some headway in that area. The Labor Prime Minister has already moved to speed the privatization of government-controlled banks and state enterprises, including El Al Israel Airlines and ZIM Israel Navigation Co., the shipping line. Such free-market recipes are straight from the neo-Gothic halls of Chicago's economics department and from the IMF, where Frenkel headed research from 1987 until last year. That "was basically the dream job for any economist," he says. In fact, friends

wondered why Frenkel gave up prestige and a tax-free salary of more than \$150,000 a year for the \$30,000-a-year job of guiding Israel's economy. Replies Frenkel: "I saw an extraordinary national challenge in the context of the new immigrants."

FAMILY TIES. Frenkel returned to Israel with an array of credentials and highly placed friends. With undergraduate degrees in economics and political science from the Hebrew University of Jerusalem, he journeyed in 1967 to Chicago to study under luminaries such as Milton Friedman and Harry G. Johnson. In 1973, Frenkel began teaching economics at Chicago, specializing in exchange rates and inflation. His wife, Niza, also received a Chicago PhD, in biology, before pausing to give birth to daughters Orli and Tahli. But in 1987, former IMF Managing Director Jacques de la Rosière—now head of the Bank of France—lured Frenkel away. "He took a research department that had languished and put it very firmly back on the map," says Stanley Fischer, a Chicago colleague and former World Bank chief economist.

Frenkel appeared comfortable enough in Washington to relinquish his endowed Chicago professorship. In fact, few colleagues thought he would say yes when Shamir beckoned. "I pushed him very hard to take it," says Fischer, now an MIT professor, "but most of his friends—myself included—didn't expect him to." While Frenkel had kept his ties to Israel, visiting every year, his family had grown up in the U.S. And while doing research at her National Institutes of Health laboratory, Niza Frenkel had just discovered a new herpes virus.

Frenkel's biggest regret now is that his job provides almost no time for scholarly work. Six days a week, a chauffeur-driven Volvo 740 picks him up at his modest apartment in northern Tel Aviv well before 7 a.m. for the one-hour drive to Jerusalem. He rarely returns home before 10 p.m. But to Frenkel, the long hours are worth it. Even if things don't come off exactly as he hopes, Frenkel will certainly have a riveting tale to tell whenever he decides to step to the front of the classroom again.

By John Rossant in Jerusalem and Mike McNamee in Washington

HONG KONG

MAINLAND MANIA IN HONG KONG

Colony tycoons are furiously investing in major Chinese cities

All through Hong Kong's 1980s investment blitz in southern China, the late shipping magnate Y. K. Pao held on to his wallet. Like many of Hong Kong's tycoons, bitter over losing their fortunes in the communist revolution, mainland-born Pao limited his spending in China to charity. But now, under the helm of son-in-law Peter Woo Kwong-ching, Pao's Wharf (Holdings) Ltd. is joining other Hong Kong companies on the investment bandwagon. Among Wharf's bigger schemes: to help develop the inland industrial city of Wuhan into the "Chicago of China" over two decades.

The second wave of Hong Kong investment is under way. In the first, thousands of small makers of electronics, garments, and toys poured some \$10 billion into factories in nearby Guangdong Province to tap its cheap labor. As prices rise in Guangdong and free-market reforms spread beyond the coastal cities, cash-rich Hong Kong investors are moving inland, gearing up projects that will change the face of major cities such as Beijing, Shanghai, Tianjin, and Wuhan.

In recent weeks, the colony's biggest property developers, including billionaires Li Ka-shing, Robert Kuok, and Cheng Yu-tung, have unveiled a host of mega-deals—from skyscrapers and shopping malls to entire American-style suburbs. The new influx is certain to boost Hong Kong's importance to the mainland after they are united in 1997. **'GREEN LIGHT.'** Although ambitious projects have been on the drawing boards for years, the big catalyst was Deng Xiaoping's trip through the booming Pearl River Delta earlier this year. Deng endorsed Guangdong's embrace of free-market reforms and foreign investment and began a campaign to topple party hard-liners. "That was the green light for the gung-ho approach," says Stanley Hoon, a China consultant for Stelux Holdings, the Hong Kong investment arm of Thai property giant Bangkok Land. And the overseas response has been huge: Foreign investment

commitments in China for the first six months of 1992 tripled, to a record \$14.7 billion, one-third of it from Hong Kong.

Guangdong still gets most of the attention. Next year, developer Gordon Y. S. Wu of Hopewell Holdings expects to complete his \$1 billion six-lane superhighway, the first part of his plan to build roads, bridges, and tunnels throughout the Pearl River delta. Stelux Holdings plans to create a \$4 billion suburb outside Guangzhou for China's growing middle class. And Cheung Kong (Holdings) Ltd., the flagship of billionaire Li Ka-shing, is looking to build a huge amusement park.

But now, Hong Kong developers are

fice tower that would be Asia's tallest.

But none of the plans is quite as far-fetched as Wharf's scheme to develop Wuhan. Right now, Wuhan, in central China, is a drab industrial city of 7 million who Marxist government is just beginning to implement reform. But Wharf executives think it has a dynamic future, given its low labor costs and its rail and river connection to China's biggest cities. Even before it has rounded up other investors, Wharf is talking about sinking up to 20% of its own assets, now about \$1 billion, into the city. Its first project: a cargo terminal.

CASH APLENTY. Whether developers can raise the funds to achieve all their dreams for China is another question. Skeptics wonder if Hong Kong investors are going overboard. Hongkong & Shanghai Banking Corp., already stung by the likes of Australia's high-flying Alan Bond and Germany's Reichmanns, is cautious about lending in China because it fears the property rush is driven more by speculation than need.

But big players such as Cheung Kong



IN GUANGDONG, HOPEWELL HOLDINGS EXPECTS TO COMPLETE A \$1 BILLION SUPERHIGHWAY BY NEXT YEAR

eyeing northern Chinese cities. Leading the pack are Li Ka-shing and billionaire Robert Kuok. In one week in June, Li and Kuok teamed up to sign three major deals, including a shopping center in Beijing and a \$130 million complex near Shanghai's main rail station.

Indeed, Shanghai is starting to appeal to many Hong Kong investors. Property giants New World Development, Sun Hung Kai Properties, and Henderson Land Development are building Culture Square, a \$450 million downtown complex. Pacific Concord Holdings has launched a \$300 million joint venture to build an 88-story of-

and Sun Hung Kai can afford the risk. After two years of soaring Hong Kong property prices, developers have billions in cash. In cities such as Beijing and Shanghai, prime sites are incredibly cheap. "Guangdong already is looking a little more like Hong Kong in terms of prices," says Richard W. Mounce, general manager of Chase Manhattan Bank's Hong Kong office. "The developers need to move on. China may take control of Hong Kong in 1997, but old-timers like Y. K. Pao probably never dreamed that Hong Kong might end up colonizing the mainland."

By Pete Engardio in Hong Kong



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THE ROAD TO A UNIFIED EUROPE COULD END SUDDENLY IN FRANCE

t's summertime in Europe, and the living is queasy. To be sure, Parisians are still packing their bags for their annual August exodus to the beaches. But politicians and the financial-market operators are spending the dog days biting their nails in trepidation over France's Sept. 20 referendum on the Maastricht Treaty.

In June, when President François Mitterrand called for a vote on European economic and political unity, a yes seemed virtually assured. But now the possibility is looming that French voters will say no as a way of taking a swipe at their increasingly unpopular President. In recent weeks, opposition to Maastricht has climbed to about 45% as Mitterrand's government has been beset by truckers' protests and corruption scandal. But the most damaging news has been the spectacular trial of four senior government health officials who during the 1980s allegedly neglected to test the blood they knew was contaminated with HIV, the virus that causes AIDS. As a result 1,300 hemophiliacs are believed to have contracted the virus.

GLUED UNGLUED? Because Mitterrand has been such a key architect of European unification, a rejection of Maastricht, coming on top of Denmark's rejection of the treaty, would stop the drive for economic union and a single currency. Such fears have already spooked investors, who have been betting that unification would force the disparate governments to bring down inflation and deficits. The jitters have helped push up short-term interest rates in Italy and Britain and have nearly shut down trading in the once-hot market for bonds denominated in European Currency Units. Traders fear a French no could threaten the European Monetary System, which links foreign exchange rates. If Maastricht

stumbles in France, the leaders of economically shaky countries such as Britain, Italy, and Spain might face a currency devaluation crisis. Already, British businessmen are urging Prime Minister John Major to devalue the pound to help Britain shake off a two-year recession. Currencies in Italy and Spain are increasingly anemic. "Within a week of a no vote in France, the EMS will fall apart," with the British pulling out, predicts Malcolm Roberts, head of bond research at London's UBS Phillips & Drew.

With so much at stake, European bureaucrats in Brussels have all but closed up shop to avoid any controversy that might hurt the unity cause in France. And Mitterrand is pulling out all stops. Socialist politicians—as well as nationalist and centrist opponents of Maastricht—will vigorously work the beaches and holiday spots to sway voters. Newspapers and billboards are festooned with ads. A Socialist billboard shows a U.S. comic book figure and a Japanese sumo wrestler dominating the world and urges the French to vote yes to give Europe the heft to take on the two economic titans. But the campaign suffered a blow when authorities prevented the government from running pro-Europe messages as public service ads on TV.

While Mitterrand has been urging voters not to confuse their feelings about him with Maastricht, he hasn't been helped by the corruption charges against the Socialist president of the French National Assembly, Henri Emmanuelli, and the blood scandal, which has damaged Laurent Fabius, who was Prime Minister at the time.

Even if Mitterrand can deliver France, Europe will continue to be roiled by increasing opposition to unity in Britain and even Germany. This growing backlash will likely keep leaders on edge for months.

By Bill Jaretski in Paris

**FAIRE
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LE 20 SEPTEMBRE, DITES *oui* A L'EUROPE. 
A SOCIALIST BILLBOARD URGING VOTERS TO GIVE EUROPE THE HEFT IT NEEDS TO COMPETE

GLOBAL WRAPUP

SOUTH AFRICA

Just before the recent general strike, African National Congress President Nelson Mandela telephoned the chairmen of the country's 30 largest corporations. He asked them not to dismiss striking workers, implying that if they complied, the stalled political negotiations would soon begin again. It was the clearest sign yet that the deep political crisis that has halted the talks on majority rule could soon be over. President F.W. de Klerk has been weakened by domestic and international criticism of his handling of recent violence in black areas. He is also being pressured to compromise by Herman J.

Cohen, the visiting U.S. Assistant Secretary of State for African affairs. Cohen has been telling de Klerk that the white minority cannot hope to have a veto over policies once the majority takes over.

De Klerk may go for a deal now being brokered by former U.S. Secretary of State Cyrus R. Vance. Vance's formula calls for the quick establishment of an interim government while negotiations on the country's political future continue.

While the ANC's tough tactics appear to have paid off, Mandela, too, has reason to want the negotiations resumed and tensions reduced. He is worried that investor confidence in the

economy of the country that he aims to govern will otherwise be irrevocably damaged.

JAPAN

The Japanese government appears to be getting ready to buy land in order to shore up sagging property prices and help out banks burdened by as much as \$200 billion in bad loans—many of them for real estate. The Finance Ministry is encouraging municipalities to buy as much as \$40 billion worth of land for public works projects. Local news reports say much of the land to be purchased could be foreclosed properties that the banks cannot sell.

GUYS AND MALLS: THE SIMONS' CRAPSHOOT

The timing may be off, but the brothers swear by their soon-to-open super shopping center

From the Indianapolis offices of Melvin Simon & Associates Inc., you can see the bubble-topped Hoosier Dome rising out of a landscape as flat as a pane of glass. But on the inside, the offices sound more like a Bronx street corner. Above the general hubbub of leasing agents shuffling documents and chattering into phones, Melvin Simon, the firm's New York-born co-founder, is barking out instructions. Most are hurled at his secretary, but this gravel-voiced remark is aimed at his brother Herbert: "Hey Herb," Melvin yells. "We've got Art 'Give it Away' Spellmeyer on the phone."

Herbert jumps to the receiver, and it's easy to see why. On Aug. 11, Simon & Associates, the nation's second-largest shopping-mall developer, will open the doors of the largest U. S. mall project ever attempted. Located near Minneapolis and dubbed the Mall of America, the \$625 million retail extravaganza packs a roller coaster, a bi-level miniature golf course, scores of restaurants, and 2.5 million square feet of retail space into an area the size of 52 football fields (table). Spellmeyer—the guy on the phone—is responsible for completing construction and filling the sprawling space in the midst of the worst retail slump in recent memory. As Melvin's nickname for him suggests, it hasn't been easy.

HEADACHES. The Mall of America, in fact, opens just as the Simons are restructuring their entire \$900 million empire. Having built a fortune by blanketing the nation with low-budget strip malls, the brothers are now scrambling to stay liquid in the face of a searing real estate depression. They've scaled back new projects, laid off employees, and sold or restructured assets to raise cash. Meantime, to attract tenants to the Mall of America, they've given away as much as \$100 million in reduced rent and other concessions. Melvin, 65, and Herbert, 57, are still confident their megaproject will pay off. But even Herbert admits to moments of anxiety. "To make a decision like this, it had to be the late '80s," he says. "Today, you can't just call up the bank and they'll send you money like they did then."

From its start in 1988, the project has presented one headache after another. The

Simons have endured two tough rounds of financing, bankruptcies that threatened the survival of anchors R. H. Macy & Co. and Bloomingdale's Inc., and a feud with downtown Minneapolis merchants. The Simons' exposure is limited to financing the mall's operations, since three Japanese banks have joined Teachers Insurance and Annuity Assn. of New York in picking up the \$625 million construction tab. But with all the rent giveaways depressing income, the Simons still have plenty of worries.

It's all a far cry from where they started. The sons of a Central European immigrant tailor, Melvin and Herbert grew up in a \$30-a-month third-story walk-up in the Bronx. Melvin went to Indianapolis with the Army and never left. He sold encyclopedias for a time but soon found a job with a shopping-center developer. By 1959, he had lured brother Herbert to Indy, and the two struck out on their own.

The Simons built bare-bones strip malls on every busy thoroughfare they could find. Concrete hulks adorned with plastic plants, the projects didn't win any architectural awards. But the brothers had a knack for finding prime locations and eventually were able to graduate to such glitzy—if ill-fated—projects as A&S Plaza in New York City and New Jersey's Newport Centre.

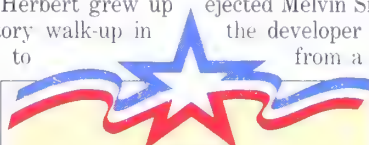
Along the way, they built a colorful reputation for extravagance, investing freely in everything from Hollywood to the National Basketball Assn. Melvin, the pair's idea man,

ventured on his own into movie production in the 1970s, only to lose a total of \$40 million. While his *Porky's* and *Porky's The Next Day* proved to be Hollywood version of a strip mall—ugly but huge—profitable—they couldn't make up for success with critically acclaimed duds as *My Bodyguard* and *Zorro*, *The Gay Blade*.

In 1983, the brothers bought the NBA's hapless Indianapolis Pacers in order to keep the franchise in town. They frequently entertain bankers and retailers at Pacers games, where they are as vocal as any second-balcony beer-belly. A referee nearly ejected Melvin Simon from one game after the developer berated him continuously from a seat at half court. "They

are the Pacers' biggest fans," notes Dave Weiss, a former Citicorp bank executive who says he has seen Melvin nearly run onto the basketball floor to protest a referee's call.

PITFALLS. Since they won't fly on the same plane, each Simon brother has his own private jet. But the two generally stick close in Indianapolis, despite some recent local embarrassment. At the city's urging in 1988, the Simons launched a project called Circle Center that was designed to turn downtown Indy into a regional retailing mecca. So far, though, the project consists of three foot-deep holes covering three square blocks. Herbert has persuaded 13 local companies, including Eli Lilly & Co., to invest \$55 million, but not enough major retailers have signed on to lure the requisite bank financing.



THE MALL OF AMERICA

- ★ **COST** \$625 million
- ★ **OWNERS**
Teachers Insurance 55%
Melvin Simon & Assoc. 22.5%
Triple Five Corp. 22.5%
- ★ **SIZE** More than 4.2 million square feet
- ★ **ANCHOR TENANTS**
Bloomingdale's, Macy's, Nordstrom, Sears
- ★ **ENTERTAINMENT**
Golf Two-story, 18-hole miniature golf course
Aquarium 300-ft.-long, walk-through aquarium*
Knott's Camp Snoopy
Roller coaster, log flume ride, 24 other attractions
Lego Imagination Center
20-foot dinosaurs and Lego factory
Food & Drink Six full-service restaurants and five nightclubs

DATA: MELVIN SIMON & ASSOCIATES

*OPENING 1994



**HERBERT AND MELVIN SIMON
AT THEIR MEGAMALL: DESPITE
SWEET DEALS, RETAILERS ARE
PLAYING A WAITING GAME**

the Simons take the setbacks in stride, they're hardly ignoring them. They've trimmed their roster of deals in progress from 80 a few years back to fewer than 10 now. And since 1990, they've slashed their Indianapolis work force by nearly 50% to 800. Most important, they've asked David Simon, Melvin's 30-year-old son, to bring some discipline to a loosely run firm that had never even produced a consolidated cash-flow statement.

David, a former investment banker at Boston Corp. and Wasserstein, Perdue & Co., is charged with raising cash to ease off a liquidity squeeze. "That's what the banks were screaming for," says Melvin, the former Citibanker. Since David took over in June, 1990, sources familiar with the firm's deals say, the firm has refinanced or sold more than \$1 billion worth of properties, generating an estimated \$200 million in cash. One big winner: a deal to use a \$1 billion bank debt to replace \$110 million in bonds sold by Drexel Burnham Lambert that paid a huge 11% interest, plus a stream of cash flow from seven malls. The transaction alone freed up \$75 million. Generating cash hasn't eliminated the Simons' problems. Though the restructuring reduced the firm's exposure to both A&S and Newport Centre, for instance, it

still holds significant stakes in both developments, which are plagued by low-occupancy rates. And don't forget Circle Center. Still, the Simons have staying power. Their strip malls produce good income, and the firm recently opened two high-end projects with occupancy rates topping 90%: the Forum Shops at Caesars Palace in Las Vegas and the Fashion Centre at Pentagon City.

GREAT EXPECTATIONS. They'll need all the strength they can muster. When the Mall of America opens to Ray Charles singing *America the Beautiful*, more than 30% of its leasable space will be vacant. "We haven't told any of our clients to go into the mall," says Steven B. Greenberg, president of retail consultancy the Greenberg Group, which advises more than 10 national chains. Many retailers want to see how the mall does before jumping in.

The wait-and-see attitude is understandable, given the long odds the megamall faces. The Simons hope to lure 45 million visitors a year—more than the number drawn by Walt Disney World, the nation's No. 1 tourist attraction. While most visitors are expected to come from within a 400-mile radius, marketing extends as far as Tokyo, where the official airline of the mall, Minneapolis-based Northwest Air-

lines Inc., is pushing excursion packages.

In judging how the Mall of America might do, most experts look to the only comparable project: the West Edmonton Mall in Canada. An attraction-filled retailing behemoth, it is owned by Triple Five Corp., the operating entity for Canada's Ghermeziyan brothers. The Mall of America was the Ghermeziyans' brainchild, too, but they had to bring in the Simons as partners after failing to arrange financing. The mall claims more than 23 million visits a year—more than 9 million of those from farther than 100 miles away. But observers doubt it is doing very well. "Everyone who goes to Edmonton goes to West Edmonton Mall," says Toronto retail consultant John Winter. "But it's so large, it's difficult to shop. It is not a spectacular performer."

Herbert Simon just sighs when presented with such assessments. His firm has battened down its hatches to ride out the retail slump, and his three decades in the business give him confidence. "The first time I went inside, I got the feeling that this thing really works," Simon says. All he has to do now is persuade 44,999,999 others to stop by for a look.

By David Greising in Bloomington, Minn., with William C. Symonds in Toronto

OLD ROCKERS NEVER DIE —THEY JUST SWITCH TO CDs

Baby boomers are spending millions for repackaged hits

Their 1971 monster hit *Stairway to Heaven* became an anthem for the rock generation. By the early 1980s, though, the Led Zeppelin band was largely a memory. But this year, the disbanded group went platinum again, selling 1 million boxed sets of old hits on compact disks for as much as \$70 a set. And it wasn't a series of reunion concerts before frenzied teenagers that provoked the boom. Instead, the album's promoters got the word out to a mostly 30-plus crowd by means of a campaign that included ads on such couch-potato favorites as the ESPN and Arts & Entertainment Cable Network channels.

It's demographic marketing, and the target is aging Aquarians. For decades, producers of rock recordings have focused on younger consumers. But at 34 million, 15-to-25-year-olds are a much smaller market today than they were 10 years ago, when they numbered 42 million. And the \$7.8 billion record industry needs to smooth out erratic sales, which ticked up a scant 4% last year after jumping 14% in 1990.

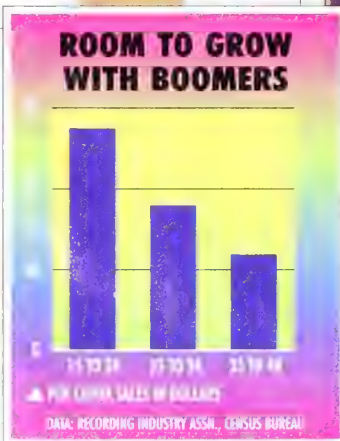
So why not woo the generation that got rock rolling in the first place? The 78 million boomers are entering their peak earning years, but they don't buy recordings at nearly the same rate as teens do (chart). Reaching this group means rethinking the standbys of rock-and-roll marketing. "They don't go to as many concerts, and they don't browse in the record stores," says Capitol Records sales head Lou Mann. "They'd rather stay home with the kids." And when they're home, boomer rock fans spend less time with those other mainstays of music promotion—Top 40 radio and MTV. "The industry still works under the as-

sumption that if you get enough airtime, you can get a hit," says Larry Solters, whose Los Angeles-based Scoop Marketing promotes labels to boomers.

Relying on concerts and airplay alone could backfire if a performer's real market is the boomer, not the teenager. Witness the two new albums from 43-year-old Bruce Springsteen. Promoters did little to target the 25-and-over set for



RECORD COMPANIES LOOK FOR CUSTOMERS ON PLANES, AT CAR DEALERSHIPS, AND ON NATIONAL PUBLIC RADIO



the albums, which were largely ignored by DJs catering to teens. Each sold a million copies—a disappointment for The Boss, whose 1987 album *Tunnel of Love* sold four million.

So the studios increasingly are pursuing boomers where they travel, shop, and play. So far this year, home-shopping channel QVC Shopping Network Inc. has peddled 2,000 sets of Capitol's 16-CD Beatles collection at \$200 apiece. Hear Music in Wellesley, Mass., mails a catalog of light rock and jazz to 500,000 boomers. It will soon open record stores in Berkeley and Boston featuring selections geared to the 25-and-over crowd in

a more sedate ambiance than the typically jangly Tower Records store.

More innovative marketing aims at the busiest and most affluent boomers. In April, Atlantic Records signed up a repackaging firm, Rhino Records, to master and sell its golden-oldie releases, which includes Ray Charles, Otis Redding, and other greats. Rhino's first effort for Atlantic involves an Aretha Franklin set that American Airlines will play on its in-flight audio system. The carrier's on-board magazine will plug the set, too, and offer CDs or cassettes through an 800 number.

COMMUTER CACHE. Motown figures Ford Motor Co.'s Taurus and similar models are aimed at the audience it wants. It's talking to Ford about putting sampler recordings of the Supremes, Temptations, and other artists in the cars. Capitol recently added flyers to passes mailed to commuters on New York's Metro North railroad. The label sold 900 CDs and tapes of 20 performances including the Beatles and the Beach Boys, in a month.

And if boomers aren't exactly chomping at the bit, with MTV, they're still turning in—albeit to fustier fare. Record promoters are courting new media and public-affairs shows. National Public Radio, for example, has become a forum for older rock stars. Arista Records Inc. booked 37-year-old former Eurythmics singer Annie Lennox on NPR's *Morning Edition* to promote her new solo album, *Diva*, which has sold over 500,000 copies in two weeks. Capitol helped promote Bonnie Raitt's *Nick of Time* by having Raitt recount her battle with alcohol on CBS's *Face to Face*. *Nick of Time* sold three million copies.

There's also an MTV for the superannuated set: VH-1, owned by MTV parent Viacom International. By catering to fans aged 25 to 45, VH-1 has become the country's fastest-growing cable channel, increasing by 6 million homes, to more than 48 million, in the past year. Advertising is up by 40%, says VH-1 President Edward A. Bennett, as record labels seek out joint promotions. VH-1, for example, recently pushed Warner Brothers' David Byrne and Los Lobos recordings in conjunction with a special sale at Sam Goody-MusicLand stores.

As marketers get more inventive, boomers get older, the target-market opportunities will multiply. Who knows? Maybe it won't be long before Mick Jagger tells all to *Modern Maturity*.

By Ronald Grover in Los Angeles

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CONGRATULATIONS ON YOUR BIG EARNINGS INCREASE!

American Greetings holds its own in the battle against Hallmark



MAKING YOUR MARK: CUSTOMERS DESIGN THEIR OWN MISSIVES AT CREACARD KIOSKS

Edward Fruchtenbaum often consults with a psychiatrist. But the newly appointed president and chief operating officer of American Greetings Corp. doesn't stretch out on a couch. Fruchtenbaum keeps a shrink and various other experts as consultants to help come up with new products for his \$1.6 billion-a-year greeting-card company. The psychiatrist is good at identifying stressful situations when people have "a psychological need for a card," Fruchtenbaum explains. For example, the doctor has prescribed cards for people going away to college, quarreling with lovers, or looking for a job.

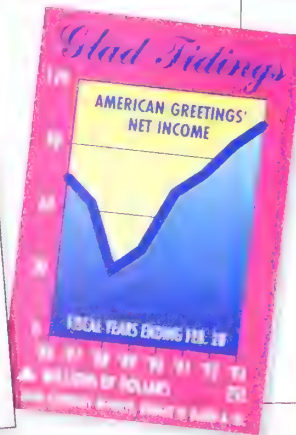
That's one card Edward Fruchtenbaum probably won't be receiving anytime soon. Five years ago, the Cleveland company's earnings were being shredded in a price war with its two major rivals, Hallmark Cards Inc. and Gibson Greetings Inc. Since then, Fruchtenbaum has helped turn around American Greetings' earnings by cutting costs and improving customer service so it doesn't have to compete on price. Earnings have more than doubled, to \$97.5 million, since their nadir in 1987 (chart).

But American Greetings has

more battles ahead. Hallmark, the largest card company, with more than \$2.8 billion in sales, is a tough competitor. And unit sales growth in greeting cards, only 1% to 3% a year, is nothing to write home about. To keep his sales growing, Fruchtenbaum is targeting narrow consumer segments, such as college students, while continuing to beef up service to retailers. The company, whose assets include a picture-frame maker, a hair-accessory manufacturer, and a licensing arm, may also make more acquisitions in and out of cards.

One recent move that has the people

WILL CUSTOM CARDS FUEL GROWTH?



at American Greetings cheering is the purchase of Custom Expressions Inc. The company makes kiosks, called CreaCard, where consumers can design and print their own cards in minutes. Fruchtenbaum has high hopes for CreaCard. Because of its presumed appeal to younger people, the company expects CreaCard to reach \$500 million in annual revenues within the next 10 years.

If Hallmark has any say in the matter, though, CreaCard will end up in the dead-letter office. The No. 1 cardmaker is testing its own kiosks and has asked the U.S. Patent & Trademark Office to explore whether CreaCard interferes with Hallmark's patent. American Greetings insists its patent will prevail.

PUSHING THE ENVELOPE. Shelving CreaCard would be the first big disappointment for American Greetings in a while. The company has come back strong from the price wars in the late 1980s when "retailers perceived greeting-card companies as all alike," says Fruchtenbaum, 44. Every big cardmaker's profitability suffered in a discounting frenzy. Morry Weiss, who is now chairman and CEO of the company his father-in-law founded in 1906, began a major restructuring. He clipped away unprofitable subsidiaries and excess costs, and introduced just-in-time processes in manufacturing and card development that helped pare inventories and reduced the time it takes to bring cards to market.

It was Fruchtenbaum, then senior vice-president for marketing, who terminated the company's strategy to escape the price wars. He launched a series of ambitious customer-serve programs to differentiate American Greetings from its competitors without cutting prices. Last year, for example, the company's new retail creative services department began working with customers to create seasonal displays throughout stores, not just in the card area, to boost traffic during holidays. Earlier this year, American Greetings formed a new information services

department to develop software that analyzes retailers' sales patterns and tracks inventories for many different products.

Evidently, it's paying off. Last year, Hallmark reported a meager 1% increase in revenues from greeting cards and related goods such as wrapping paper, while sales of American Greetings' cards and related goods grew 10%. Fruchtenbaum is counting on CreaCard for even bigger gains. No word on what his psychiatrist thinks.

By Laurel Touby in New York

WHY COMMONWEALTH EDISON FEELING THE HEAT

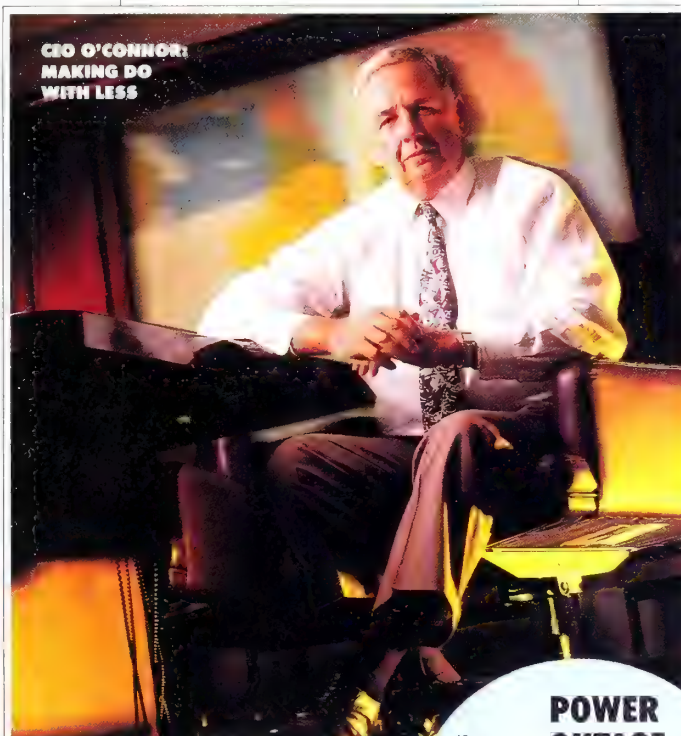
utility is laying off workers and may have to cut its dividend

When river water began flooding basements across downtown Chicago in April, Commonwealth Edison Co. flew into action. The giant utility immediately cut power to a 20-block area, and senior executives flew together a war room to coordinate the company's response. Over the next few days, Edison worked around the clock to restore electricity. Crews even jury-rigged transmission lines so power could reopen. As the city rebounded, civic leaders heaped praise on the company's effort. Says Chairman James J. O'Connor, "It was our finest hour." You know things have gotten bad when a disaster is at its high point. But then, O'Connor hasn't had much to boast about. For three years, Edison has struggled without success to convince regulators that it deserves a rate increase to pay for the \$7.1 billion it sunk in its last three nuclear power generators, which went online in the late 1980s. It looks as if Edison will get an increase—but not enough to cover its costs.

Now, state regulators say the company paid too much for coal during the decade, and they may order Edison to refund \$281 million to its customers. **MAKING BY.** Edison's nuke spending has been devastating to its bottom line. In the Illinois Supreme Court last year, Edison refused to allow the company to add \$734 million in construction costs to the nuclear plants along to ratepayers, kicking the issue back to the Illinois Commerce Commission. Edison's net income plunged 63%, to \$16.6 million. Hope for a banner year in 1992 grew dim in June, when regulators' preliminary ruling said Edison wouldn't be allowed to pass along its costs. The reason: Under the arcane rules that govern the heavily regulated utility, the plants aren't judged "used and useful." A final decision is expected in January, and Edison should get some smaller portion of what it wants. But investors

are less than enthusiastic: Edison's stock has slid 38% since late 1991 (chart).

Figuring the company won't get good news in January, O'Connor has moved to cut costs. On July 22, he announced Edison would ax 1,250 managers, or 10% of



the company's total, and slice \$385 million from its construction budget. The company's \$3-a-share dividend is also "under pressure," says O'Connor. Smith Barney, Harris Upham & Co. industry analyst Edward J. Tirello predicts the company will cut the dividend in half, possibly by September.

But it may take a lot more than that to lift Edison's fortunes. Some outsiders believe an additional 1,200 or so management employees might be cut. Edison is talking about slashing services, such as its 24-hour consumer hot line, and putting off maintenance at old generating plants. If O'Connor hacks away enough costs, figures Tirello, net income could rebound this year to \$402 million.

But that's still less than half of Edison's 1987 profits. And such cuts probably won't stave off a credit downgrade: All four rating agencies currently have Edison on their watch lists.

Edison is not alone. Utilities, once energized by fat rate increases, face lean times. Worried about ratepayer rebellion and recession, flinty regulators are denying or scaling back rate hikes, forcing utilities to cut. On July 22, after failing to get a \$204 million rate increase, Cincinnati Gas & Electric Co. announced it would eliminate up to 800 jobs and slash \$400 million from its \$1.4 billion four-year construction budget. In April, trying to get a handle on costs, Houston Lighting & Power Co. cut staff positions by 17%.

COAL COMFORT? The irony is that Edison's nuclear plants are up and running, providing power to northern Illinois consumers. "They're the best plants we have," says O'Connor. But under the formula state regulators will use, part of the electricity generated by one unit and most of the power thrown off by the others isn't necessary right now. Consumer groups say Edison has up to 10% more generating capacity than it needs. Charges Susan Stewart, head of the watchdog group Citizens Utility Board: "They won't need it until after the year 2000."

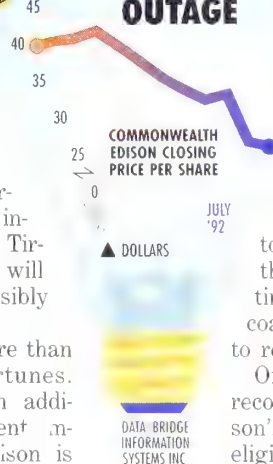
When the company started building the plants in the mid-1970s, both Edison and regulators thought the power would be needed by now. Then in the late 1980s the surplus appeared, and regulators started backpedaling. Edison originally asked for a \$1.2 billion rate increase.

About all O'Connor will probably get is a 9% rate increase, or \$482 million. That won't help him forget his coal woes, either. Thanks to long-term contracts signed in the 1970s, Edison pays three times the national average for coal. O'Connor says he's seeking to restructure the coal deals.

One day, O'Connor may finally recoup the cost of building Edison's nukes. The company is next eligible to apply for a rate increase in 1993. But O'Connor isn't betting on it. "There's no compass," he says, about the regulators. Actually, there is. It's just not pointing in the direction O'Connor expected.

By Kevin Kelly in Chicago

POWER OUTAGE



For 200 years it's been

Disasters have always been a fact of the insurance business.



Shipwreck - Caribbean 1798

Th

have been



Fire - Chicago 1871

dealing with that fact by relying on the CIGNA Property & Casualty

claims and keep their promises, through some



Quake and Fire - San Francisco 1906

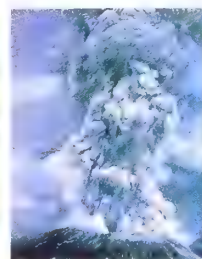
of the world's worst disasters



Tornado - Nebraska 1947

the burst pipe, the damaged roof. We've handled more of those than we

with the same integrity that we've brought to



Volcano - Washington 1980

the ones that make the headlines

will strike,



Hurricane Hugo, 1989

or how big or small it will be. There's one thing that we

disaster after another.

...y're a fact of life. For the past 200 years,



Dock Fire, New York 1835

...thousands of businesses



Flood, Johnstown 1889

...whose financial resources and expertise have allowed them to pay their

...en the smallest disasters seem big to the



Hurricane, New England 1938

...companies they affect. The fire,

...could ever illustrate in a thousand advertisements. And always



Earthquake, Los Angeles 1971

...unfortunately, will always



Tornado, Iowa 1982

...be with us. We don't know where the next one

...do know though. We'll be there. **We get paid for results.®**



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AT LEAST PROFITS ARE RECOVERING

Despite a wobbly economy, the 900 companies in our survey averaged a second-quarter gain of 20%.

Happy days are here again—or at least it's starting to look that way. For the second quarter in a row, U.S. corporate profits showed signs of a comeback. Profits before extraordinary items rose 20% on average in the second quarter at the 900 companies in BUSINESS WEEK's Corporate Scoreboard. For the first six months of 1992, earnings increased 11%, while revenues grew 4%.

Cost-cutting and low interest rates saved the day in the second quarter. Although revenues rose a mere 5%, according to Standard & Poor's Compustat Services Inc., net margins reached 4.6%—the highest level in two years (chart)—up from 4.3% in the first quarter. These results do not, however, include General Motors, which had not yet released its numbers for the second quarter.

TEPID. Many economists greeted the profits picture with a marked lack of enthusiasm, and some viewed second-quarter results as downright doleful. Yet some industries managed to post solid turnarounds in profits. Notable winners were banks, which gained \$4.1 billion, or 75%, over last year's second quarter, and the auto industry, which had a gain of \$987 million after a loss last year. Among the losers were airlines—\$520 million—and computer manufacturers—\$276 million. Profit problems continued to plague fuel

companies as well. Their profits dropped 26%, to \$2.5 billion. In fact, the fuel numbers turned out to be so bleak that had those results been excluded from the Scoreboard, the picture would have been significantly brighter: Instead, earnings would have climbed 26%.

cal, Citicorp, J. P. Morgan, and Banker Trust New York. Citicorp reported a second-quarter profit of \$171 million, mainly from asset sales and \$1 billion in reduced annual expenses. Chemical Bank's \$240 million in earnings was slightly disappointing: Analysts expected to see

WINNERS AND LOSERS

THE INDUSTRIES

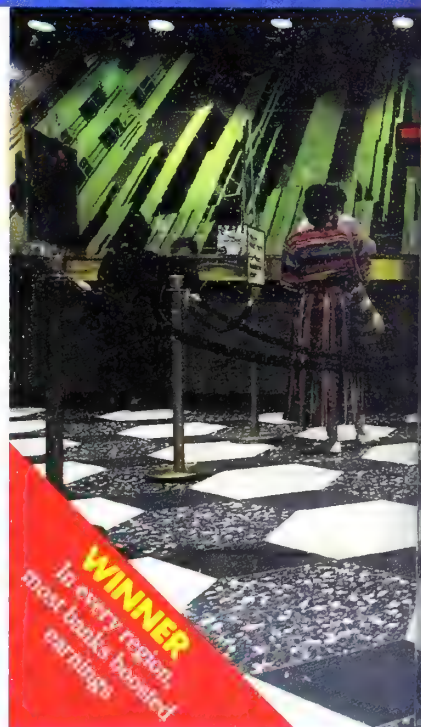
THE SHARPEST GAINS

THE DEEPEST DROPS

Percent change from 1991's second quarter		Percent change from 1991's second quarter	
TEXTILES	1,372%	AIRLINES	LOSS
AUTO PARTS	276	DRUG DISTRIBUTION	LOSS
BANKS—East	193	OTHER METALS	LOSS
TIRE & RUBBER	191	ALUMINUM	-85%
SEMICONDUCTORS	137	FOOD RETAILING	-49
CONSTRUCTION & REAL ESTATE	126	PETROLEUM SERVICES	-46
RAILROADS	118	OIL & GAS	-26
ENTERTAINMENT	111	COAL	-22
POLLUTION CONTROL	76	PAPER CONTAINERS	-11
COMPUTER SOFTWARE	72	SPECIAL MACHINERY	-10
BANKS—West & Southwest	64	PAPER	-7
HOTEL & MOTEL	59	FOOD DISTRIBUTION	-6
GLASS CONTAINERS	47	ELECTRIC UTILITIES	-5
BUILDING MATERIALS	45	AEROSPACE	-4
MACHINE & HAND TOOLS	45		

ALL-INDUSTRY AVERAGE: + 20%

The banks' numbers may be the start of something big, says Raphael Soifer, bank analyst at Brown Brothers Hariman & Co. The low cost of funds and the continuing effects of productivity gains helped most banks boost their earnings, including heavyweights such as Chemi-



positive results following its merger with Manufacturers Hanover. Banks in every region of the U.S. showed significant gains—with a few exceptions such as BankAmerica, whose profits fell.

Adding surging sales of sport-utility vehicles, trucks, and vans, Ford Motor and Chrysler posted surprisingly strong third-quarter net incomes of \$502 million and \$178 million, respectively. The automakers' earnings got an added push from strong showings in their finance divisions. Cutting subsidized sales to rental-car buyers also helped. Despite these bright spots, nobody thinks Detroit is out of the woods—especially considering the overall sluggishness of the economy. The third quarter is traditionally Detroit's weakest, as plants shut down to

prepare for new models. And the fragility of the recovery has automobile manufacturers uneasy about the fourth quarter, too.

MIXED SIGNALS. While bankers and carmakers rejoiced in their second-quarter fortunes, the oil industry struggled to get its bearings. Profits for most of the major oil companies, including Exxon, Texaco, and Occidental Petroleum, were hurt by layoffs, restructuring charges for consolidation of assets, and write-downs of domestic assets. A few companies, such as Phillips Petroleum, Kerr-McGee, and Atlantic Richfield, reported improvements because of cost-cutting and favorable comparisons to poor showings last year.

Some oil industry analysts predict across-the-board improvement in the sec-

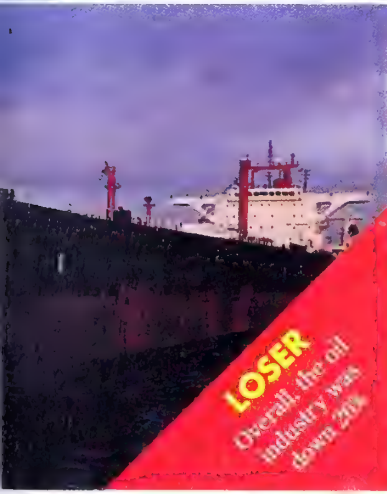
U.S. airlines last quarter. Delta Air Lines reported a particularly big loss—\$180 million—as it continued to be rocked by both fare wars and high costs associated with its new European routes. The third quarter is traditionally strongest for airlines, but many believe the bleak results for Delta, one of the nation's largest carriers, foreshadow what could be a turbulent second half for the industry.

While the airlines' rough times have been widely reported, utilities were suffering more quietly. Unusually cool weather over much of the U.S. in spring and early summer lowered revenues for most of the majors, compared with the same period in 1991, when an abnormally hot May and June set air conditioners humming.

PRICE WAR. Computer makers lost a total of \$276 million, a lot better than last year's \$1.5 billion loss. For the quarter, Digital Equipment took write-downs to help defray costs of further layoffs and plant closings, resulting in a loss of \$1.86 billion. IBM's profits, on the other hand, soared almost fivefold, to \$714 million. Yet even as the computer giant continued with its cost-cutting measures, the vicious U.S. price war in personal computers held back the profits of Big Blue, as well as those of most other hardware makers.

Consumers have taken advantage of low PC prices, but in general they remain extremely reluctant to open their wallets. Consumer spending slipped 0.3% in the second quarter, after climbing 5.1% in the first quarter. In late July, as many companies were reporting their first-half

SECOND-QUARTER PROFITS



THE COMPANIES

WHO MADE THE MOST

WHO LOST THE MOST

	Millions of dollars		Millions of dollars
PHILIP MORRIS	\$1,353	DIGITAL EQUIPMENT*	\$1,855
GENERAL ELECTRIC	1,216	AMOCO	478
AT&T	961	RESCO D. S.*	329
EXXON	955	CSX	322
IBM	714	CYPRUS MINERALS	292
MERCK	653	R. H. MACY**	226
COCA-COLA	581	DELTA AIR LINES*	180
FORD MOTOR	502	AMR	166
BRISTOL-MYERS SQUIBB	488	UAL	95
JOHNSON & JOHNSON	464	McCAW CELLULAR	86
BELLSOUTH	458	USAIR	85
BOEING	453	CERIDIAN	70
GTE	446	A&P***	66
DU PONT	440	BETHLEHEM STEEL	64
FED. NAT'L MORTGAGE ASSN.	411	BAKER-HUGHES**	62

*Fiscal fourth quarter **Fiscal third quarter ***Fiscal first quarter

DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC.

ond half, in part because of natural gas. "Gas prices should do 15% to 20% better in the third quarter over those last year," says George J. Gaspar, an analyst at Robert W. Baird & Co.

Falling prices, brought on by battles for market share, were the undoing of

earnings, the Commerce Dept. reported that the economy grew only 1.4% in the second quarter—less than half the first quarter's growth rate. The U.S. is in a "prolonged period of substandard economic growth," complains F. Ward McCarthy, an economist and principal at

Corporate Scoreboard

Stone & McCarthy Research Associates Inc. in Princeton, N.J.

While some economists are now predicting gross domestic product growth of 3% for the remainder of 1992, others are looking back on the first quarter as a flame that blazed brightly and briefly. "It's a spurt-and-stall economy," says David Wyss, research director at DRI/McGraw-Hill. "It has run into a ba-

sic stone wall, since there is no [personal] income out there."

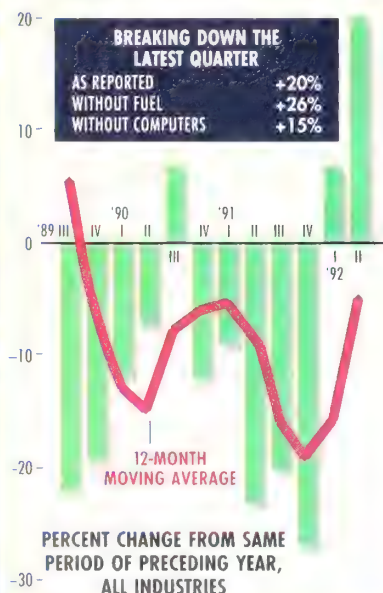
Still, it shouldn't be difficult for most of Corporate America to post solid third-quarter gains compared with 1991. Last year's third quarter was one of the worst in ages, with the recession and restructurings driving down profits by 22%. This time, analysts expect gains of 15% to 19%.

But the big question is how long companies can sustain the positive earning trend against the wobbly economy and the uncertainties of an election year. Obviously, cost-cutting and low interest rates will continue to be helpful. But in the absence of any real economic pickup, there's only so much they can do.

By Sunita Wadekar Bhargava in New York

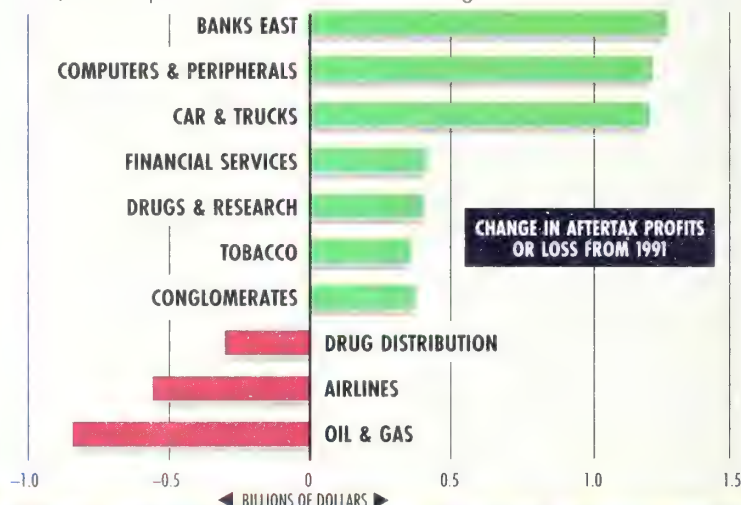
A SPOTLIGHT ON SECOND-QUARTER PROFITS

AFTERTAX PROFITS, QUARTER BY QUARTER



INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

At this time last year, 41 of 68 industry groups had lower earnings than the year before, a drop of \$9.9 billion. In this year's second quarter, 54 of 68 industry groups had higher earnings or smaller losses, gaining \$6.9 billion. Eastern banks, autos, and computers accounted for over half that gain



DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC.

CORPORATE SCOREBOARD

SECOND QUARTER 1992

Glossary

Sales: Includes all sales and other operating revenues. For banks, includes all operating revenues.

Profits: Net income before extraordinary items. For banks, profits are net income after extraordinary gains or losses.

Margins: Net income from continuing operations before extraordinary items as percent of sales

Return on common equity: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

Price-earnings ratio: Based on July 24, 1992, common stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

Earnings per share: For most recent 12-month period. Includes all common-stock equivalents.

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE- EARNINGS RATIO 7-24	12 MONTHS' EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
ALL-INDUSTRY COMPOSITE	908897.0	5	1792942.0	4	41367.8	20	80203.9	11	4.6	4.0	9.7	23	1.62
AEROSPACE													
INDUSTRY COMPOSITE	27790.4	1	53778.7	5	974.2	-4	1889.1	12	3.5	3.7	9.6	13	3.09
Boeing	7823.0	0	15790.0	14	453.0	0	894.0	17	5.8	5.8	19.9	8	4.96
Boeing Corp (1)	500.0	0	961.0	3	14.0	8	16.0	45	2.8	2.6	17.0	11	1.16
General Dynamics	1609.0	3	3181.0	3	65.0	-62	122.0	-44	4.0	11.0	10.4	13	6.29
Lockheed Martin	866.6**	-14	1823.8	-4	28.0	-5	59.6	14	3.2	2.9	10.6	7	3.09
Boeing	2480.0	2	4706.0	1	77.0	10	143.0	15	3.1	2.9	13.0	9	5.21
Martin Marietta	1584.4	1	2955.9	0	99.0	1	173.6	3	6.2	6.3	17.3	8	6.46
Donnell Douglas	4889.0	-1	9033.0	-2	38.0	-53	90.0	-35	0.8	1.6	7.8	5	8.01
Orthrop	1441.8	9	2742.3	7	51.0	72	98.2	58	3.5	2.2	25.0	4	6.58
Boeing (5)	298.8	-17	605.7	-8	-25.2	NM	-16.6	NM	NM	2.5	0.8	54	0.20
Boeing	413.0	1	796.4	-2	-0.2	NM	17.8	-45	NM	2.1	13.4	12	2.69
Boeing	148.8**	27	281.6	23	8.6	8	16.5	7	5.8	6.8	14.0	17	1.82
Boeing Technologies	5736.0**	7	10902.0	7	166.0	282	275.0	229	2.9	0.8	-22.1	NM	-7.35
AUTOMOTIVE													
INDUSTRY COMPOSITE	46724.6	13	89294.6	16	986.7	NM	1264.9	NM	2.1	NM	0.8	NM	0.19
TRUCKS & TRUCKS GROUP COMPOSITE													
Chrysler	9310.0**	19	17510.0	28	178.0	NM	-53.0	NM	1.9	NM	-0.8	NM	-0.31
Ford Motor	26842.7	13	51400.2	14	502.4	NM	840.3	NM	1.9	NM	-1.5	NM	-0.70
Chrysler International (2)	914.0	-3	1816.0	2	-35.0	NM	-67.0	NM	NM	NM	-77.5	NM	-0.76
Chrysler	612.4	10	1241.2	15	11.1	29	21.9	504	1.8	1.6	5.6	31	1.72
TRUCKS & EQUIPMENT GROUP COMPOSITE													
Boeing Industries	500.2	11	959.6	15	15.5	101	19.6	200	3.1	1.7	6.8	19	1.43
Boeing Engine	948.1	8	1829.4	8	17.5	NM	26.1	NM	1.8	NM	0.8	NM	0.16
Boeing	1240.4**	9	2426.0	11	19.7	328	21.2	216	1.6	0.4	2.8	59	0.67
Boeing (5)	126.9	10	240.7	4	7.3	18	12.3	10	5.8	5.4	16.4	17	1.72
Boeing-Picher Industries (1)	160.5	4	294.8	0	9.3	NM	13.4	NM	5.8	NM	NM	9	0.31
Boeing	1011.0	18	1960.0	17	42.0	56	75.0	477	4.2	3.2	10.7	21	3.63
Boeing (4)	475.0	8	888.3	6	20.0	78	31.3	70	4.2	2.6	8.6	19	1.01
Boeing-Mogul	311.0	9	608.0	8	5.7	185	7.5	971	1.8	0.7	-11.0	NM	-0.77
Boeing Mfg. (9)	133.8	6	271.0	9	8.5	32	16.2	91	6.4	5.1	13.6	16	2.01
Boeing (A. O.)	278.5	15	526.3	19	12.8	671	18.7	NM	4.6	0.7	7.0	14	2.36
Boeing Motor Products	150.8	0	279.6	-1	2.0	-48	3.1	-48	1.3	2.6	2.5	42	0.29
Boeing Products (6)	189.9	10	347.2	13	12.1	NM	17.5	NM	6.4	NM	21.3	15	2.24
TRUCKS & RUBBER GROUP COMPOSITE													
Boeing	146.7	1	276.2	2	21.6	17	38.2	21	14.7	12.7	28.1	22	3.10
Boeing Tire & Rubber	306.4	22	575.5	26	26.4	35	46.7	47	8.6	7.8	19.6	22	1.14
Boeing Tire & Rubber	3066.3	10	5844.6	11	109.7	573	176.0	NM	3.6	0.6	12.0	13	4.93

Second quarter ended May 31. (2) Second quarter ended Apr. 30. (3) Third quarter and most recent six months ended June 30. (4) Third quarter and most recent six months ended June 30. (5) Third quarter and most recent six months ended Apr. 30. (6) Fourth quarter and most recent six months ended June 30. (7) Fourth quarter and most recent six months ended June 30. (8) Fourth quarter and most recent six months ended Apr. 30. (9) First quarter and most recent six months ended June 30. (10) First quarter and most recent six months ended Apr. 30. (11) First quarter and most recent six months ended Apr. 30. *Sales include excise taxes. **Sales include other income. ***Sales include excise taxes and other income. †Revenues of major subsidiaries not included in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common stock equivalents but exclude extraordinary items. NA=not available. NM=not meaningful.

DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC.

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE EARNINGS RATIO 7-24	12 MONTH EARNING PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
3 BANKS													
INDUSTRY COMPOSITE	50793.9	-2	101839.1	-4	4088.1	75	8034.7	52	8.0	4.5	8.6	17	2.18
(a)BANKS - EAST GROUP COMPOSITE	27557.9	-2	55976.3	-4	1934.5	193	3695.2	105	7.0	2.4	7.6	18	1.86
Bank of Boston	1319.7	27	2626.8	24	44.7	NM	83.9	NM	3.4	NM	12.5	10	2.37
Bank of New York	884.0	-15	1810.0	-18	87.0	44	167.0	NM	9.8	5.8	8.8	11	3.67
Bankers Trust New York	1738.0	2	3329.0	-6	205.0	11	380.0	10	11.8	10.9	22.4	7	8.15
Chase Manhattan	2789.0	-3	5665.0	-5	152.0	15	293.0	18	5.5	4.6	10.2	8	3.24
Chemical Banking	3036.0	-12	6767.0	-5	240.0	30	500.0	37	7.9	5.3	2.0	NM	0.29
Citicorp	7821.0	1	15819.0	0	171.0	NM	354.0	240	2.2	0.1	-11.7	NM	-2.56
CoreStates Financial	510.9	-15	1033.8	-16	65.2	24	123.4	19	12.8	8.7	15.5	11	4.46
First Fidelity Bancorporation	611.7	-10	1243.0	-12	76.3	47	141.8	31	12.5	7.7	13.2	11	3.45
Fleet Financial Group	1194.5	29	2343.4	27	70.5	153	120.9	127	5.9	3.0	6.3	29	0.99
KeyCorp	550.9	-1	1103.4	4	59.6	36	116.8	41	10.8	7.9	15.2	11	2.87
Mellon Bank	713.0	-8	1497.0	-5	90.0	29	176.0	28	12.6	9.0	15.5	8	4.98
Meridian Bancorp	268.0	-21	538.2	-15	29.2	-20	56.3	-1	10.9	10.8	12.7	12	2.43
Midlantic	350.3	-30	732.1	-30	7.8	NM	-21.2	NM	2.2	NM	-20.2	NM	-3.44
MNC Financial	389.4	-13	794.5	-41	2.0	NM	3.1	-96	0.5	NM	-14.3	NM	-1.66
Morgan (J. R.)	2673.0	9	5117.0	-1	385.0	67	684.0	36	14.4	9.4	21.9	9	6.51
PNC Financial	1002.5	-11	2061.2	-10	129.8	39	257.5	41	12.9	8.3	13.6	12	4.42
Republic New York	573.3	-9	1159.2	-12	63.9	13	124.3	12	11.1	8.9	13.6	10	4.11
Shawmut National	493.3	-12	1059.8	-12	6.4	NM	39.7	NM	1.3	NM	4.0	29	0.51
State Street Boston	353.2	10	702.7	0	38.7	47	74.9	-11	11.0	8.2	14.8	20	1.73
UJB Financial	286.3	-8	574.2	-9	10.2	156	19.8	237	3.6	1.3	4.4	25	0.75
(b)BANKS - MIDWEST GROUP COMPOSITE	8967.4	-3	18087.1	-4	936.0	13	1906.5	20	10.4	9.0	11.6	14	2.81
Banc One	1278.3	26	2631.6	29	181.3	30	360.1	34	14.2	13.7	15.9	14	3.24
Boatmen's Bancshares	425.1	1	844.7	-1	52.3	31	100.6	31	12.3	9.5	13.0	11	4.55
Comerica	574.8	-10	1169.8	-10	-15.4	NM	59.0	-55	NM	10.6	7.3	16	3.51
Continental Bank	430.0	-27	904.0	-26	51.0	65	108.0	74	11.9	5.3	-5.1	NM	-1.17
First Bank System	416.8	-7	839.0	-8	59.3	31	116.2	35	14.2	10.1	15.4	11	2.44
First Chicago	1074.3	-12	2160.7	-13	68.2	19	128.9	21	6.3	4.7	3.4	27	1.29
First of America Bank	460.5	5	929.8	6	28.4	-33	76.7	-1	6.2	9.7	14.3	11	3.06
Firstar	296.9	-5	597.3	-4	41.0	24	78.1	21	13.8	10.7	15.3	12	4.71
Huntington Bancshares	331.6	7	629.9	3	33.6	13	65.5	19	10.1	9.6	14.6	12	2.07
Michigan National	251.4	-8	506.6	-8	15.6	45	29.9	127	6.2	4.0	8.7	11	4.46
National City	700.1	-4	1425.3	-11	85.1	30	167.3	32	12.2	9.0	15.5	11	3.92
NBD Bancorp	646.6	-5	1297.1	-6	82.7	12	161.3	12	12.8	10.8	14.2	11	2.63
Northern Trust	319.8	2	621.9	-3	37.1	16	72.9	16	11.6	10.2	17.8	16	3.66
Norwest	1142.2	1	2279.3	-1	127.9	21	250.3	25	11.2	9.3	16.6	12	3.22
Society	619.2	-10	1250.2	-10	87.7	53	131.9	21	14.2	8.3	6.5	23	2.36
(c)BANKS - SOUTH & SOUTHEAST GROUP COMPOSITE	6518.7	-10	13366.8	-9	689.2	32	1351.3	38	10.6	7.2	8.0	20	2.07
Barnett Banks	753.6	-8	1513.1	-9	54.1	85	97.7	106	7.2	3.5	8.2	16	2.23
Crestar Financial	271.0	-17	550.3	-13	16.8	38	30.4	26	6.2	3.7	4.8	25	1.16
Dominion Bankshares	245.3	-4	457.9	-12	3.2	-45	-38.2	NM	1.3	2.3	-5.8	NM	-0.71
First Union	1091.1	9	2172.3	7	125.4	70	233.3	51	11.5	7.4	10.3	13	2.91
NationsBank	2411.0	-17	5142.0	-12	251.0	22	561.0	54	10.4	7.1	5.4	31	1.46
Signet Banking	266.7	-12	529.1	-18	26.7	219	48.8	230	10.0	2.8	1.1	NM	0.27
SunTrust Banks	786.2	-8	1588.2	-7	103.4	12	203.5	12	13.1	10.8	15.2	13	3.01
Wachovia	693.8	-13	1413.9	-12	108.6	13	214.7	19	15.7	12.1	10.3	20	3.06
(d)BANKS - WEST & SOUTHWEST GROUP COMPOSITE	7749.9	6	14408.9	-2	528.5	64	1081.7	15	5.8	4.4	7.7	18	2.36
Bancorp Hawaii	237.7	-7	477.6	-7	32.0	15	62.6	16	13.5	10.9	16.1	10	4.36
BankAmerica	4054.0	33	6944.0	13	240.0	-12	543.0	-2	5.9	8.9	13.7	11	4.11
First Interstate Bancorp	1043.9	-22	2136.3	-21	64.5	NM	125.1	NM	6.2	NM	-9.0	NM	-3.11
U. S. Bancorp	480.6	-4	965.9	-4	53.3	26	100.4	10	11.1	8.4	13.9	11	2.07
Union Bank	352.3	-16	709.6	-15	33.2	-9	46.9	-34	9.4	8.8	6.7	14	1.91
Valley National	260.4	-7	519.5	-7	23.4	124	2.7	-88	9.0	3.7	2.7	65	0.71
Wells Fargo	1321.0	-10	2656.0	-11	82.0	486	201.0	21	6.2	1.0	0.8	NM	0.41
4 CHEMICALS													
INDUSTRY COMPOSITE	35547.5	1	68892.9	-1	1776.3	15	3503.6	-7	5.0	4.5	9.1	24	1.61
Air Products & Chemicals (3)	824.7	16	1618.0	10	68.4	7	141.7	9	8.3	9.0	13.5	17	2.31
American Cyanamid	1477.3	4	2855.9	4	147.5	12	262.3	11	10.0	9.3	14.4	14	4.11
Arco Chemical	769.0	9	1531.0	11	18.0	-45	79.0	-7	2.3	4.7	11.1	24	1.81
Betz Laboratories	175.9	6	351.5	7	20.4	8	40.5	9	11.6	11.3	25.6	21	2.51
Cabot (3)	371.0	7	788.9	4	16.4	155	38.4	75	4.4	1.9	14.7	15	3.01
Crompton & Knowles	134.6	13	248.3	10	12.9	20	22.7	21	9.6	9.0	26.8	22	0.81
Dexter	252.7	6	495.8	5	11.6	141	20.5	75	4.6	2.0	0.5	NM	0.01
Dow Chemical	4859.0**	1	9498.0	-3	186.0	-20	357.0	-56	3.8	4.9	5.1	31	1.71
Du Pont	9774.0***	-1	18959.0	-3	440.0	-20	922.0	-19	4.5	5.6	7.0	28	1.71

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6/30	PRICE- EARNINGS RATIO 7/24	12 MONTHS' EARNINGS PER SHARE
	2ND QUARTER 1992	CHANGE FROM 1991	6 MONTHS 1992	CHANGE FROM 1991	2ND QUARTER 1992	CHANGE FROM 1991	6 MONTHS 1992	CHANGE FROM 1991	2ND QUARTER 1992	2ND QUARTER 1991			
	\$ MIL	%	\$ MIL	%	\$ MIL	%	\$ MIL	%	%	%			
Angelhard	637.2**	-2	1267.1	-1	26.9	17	50.7	15	4.2	3.5	12.6	19	2.11
Thyl	662.0	4	1343.5	4	52.6	5	115.8	12	7.9	7.9	17.5	14	1.86
Arro	291.9	8	564.6	6	14.7	NM	27.7	NM	5.0	NM	20.6	17	2.50
First Mississippi (6)	130.1	-14	252.9	-11	1.1	108	-2.9	NM	0.9	0.4	2.2	49	0.21
Deepport-McMoran	511.4	31	874.9	10	28.7	104	34.2	-24	5.6	3.6	20.7	36	0.54
Miller (H. B.) (1)	234.6	8	453.4	8	10.1	42	16.2	50	4.3	3.3	14.2	22	2.38
Georgia Gulf	193.0	-10	382.6	-15	13.5	-19	26.5	-22	7.0	7.8	NM	13	1.50
Goodrich (B. F.)	657.3	3	1262.6	4	13.1	58	13.2	144	2.0	1.3	-7.6	NM	-3.20
Trace (W. R.)	1370.8	-2	2603.5	-5	64.1	5	89.1	-6	4.7	4.4	11.2	15	2.46
Great Lakes Chemical	381.6**	8	743.3	9	58.8	47	111.8	42	15.4	11.3	20.6	23	2.69
Anna (M. A.)	332.8**	20	629.7	17	8.3	37	11.8	26	2.5	2.2	-3.9	NM	-0.55
Merules	713.2	-3	1457.2	-3	43.2	NM	80.1	205	6.1	NM	8.0	18	3.17
AC Fertilizer Group (6)	279.7	-8	547.2	-7	7.6	-74	46.1	-4	2.7	9.7	14.9	9	4.12
International Flavors & Fragrances	295.6	11	579.7	8	55.4	14	106.1	11	18.8	18.4	18.7	22	4.66
International Specialty Products	151.8	11	293.9	7	18.6	25	35.7	29	12.3	10.9	12.2	20	0.59
Actite	154.2	9	301.6	8	11.6	-38	31.3	-10	7.5	13.4	18.9	21	1.89
Abriazol	416.4	12	833.4	12	44.8	62	88.9	41	10.8	7.4	17.4	14	4.33
Donaldell Petrochemical	1219.0	-16	2247.0	-27	10.0	-86	-3.0	NM	0.8	4.7	108.5	37	0.64
onsanto	2280.0	-8	4468.0	-5	113.0	NM	274.0	140	5.0	NM	12.5	15	3.64
Alco Chemical	340.3	7	666.8	14	36.4	10	69.4	8	10.7	10.4	23.9	18	1.84
IL Industries	235.6	8	461.7	4	-6.3	NM	-10.7	NM	NM	8.1	NM	NM	-0.26
lin	632.9	11	1247.1	10	20.8	1	44.4	NM	3.3	3.6	9.1	14	3.26
axair	662.0	8	1315.0	7	34.0	21	67.0	22	5.1	4.6	NA	NA	NA
Quantum Chemical	542.7**	-7	1174.0	-11	-41.7	NM	-53.8	NM	NM	NM	NM	NM	-3.74
ohm & Haas	783.3**	4	1497.7	5	76.4	45	135.7	44	9.8	7.0	15.8	19	3.08
huiman (A.) (4)	192.6**	8	366.9	-1	11.9	22	21.7	10	6.2	5.5	16.3	22	1.49
erling Chemicals (3)	120.9	10	210.2	-18	6.8	170	5.1	-47	5.6	2.3	8.6	24	0.17
rra Industries	597.0	6	796.8	6	49.7	24	41.6	42	8.3	7.1	13.1	11	0.43
nion Carbide	1257.0	4	2444.0	-4	39.0	77	83.0	6	3.1	1.8	-5.7	NM	-1.01
ellman	205.4	-5	412.9	1	13.9	18	26.0	18	6.8	5.5	11.2	14	1.51
itico	426.9	1	847.3	3	18.0	12	36.9	13	4.2	3.8	12.3	12	3.37

CONGLOMERATES

INDUSTRY COMPOSITE	43836.9	3	84284.3	2	2199.5	21	3888.7	16	5.0	4.3	13.2	20	2.31
co Standard (3)	1294.7**	9	2538.8	8	30.1	28	55.3	26	2.3	2.0	12.2	17	2.23
lied-Signal	3075.0	1	6054.0	2	145.0	63	272.0	79	4.7	2.9	-4.9	NM	-1.17
ltec Industries	360.0	1	697.5	0	23.3	812	20.6	NM	6.5	0.7	NM	NA	NA
art Group (11)	297.8	13	625.6	11	2.4	NM	6.3	NM	0.8	NM	3.3	14	5.10
al	911.2	0	1695.8	-5	35.6	17	49.5	16	3.9	3.4	1.5	NM	0.36
ggie International	286.1	-9	584.6	-7	4.6	-29	13.5	6	1.6	2.1	8.0	12	1.76
qua Industries	288.2	21	564.5	26	2.6	NM	0.8	NM	0.9	NM	-12.7	NM	-1.78
eneral Cinema (2)	930.7**	0	1813.7	0	-2.5	NM	25.2	NM	NM	NM	-45.9	NM	-2.73
eneral Electric	15390.0**	4	28915.0	3	1216.0	8	2274.0	7	7.9	7.7	21.2	14	5.31
eneral Host (11)	172.5	-2	314.9	1	6.6	0	7.3	-30	3.8	3.7	5.6	18	0.49
T	5360.0	4	10445.0	3	131.0	-36	294.0	-32	2.4	4.0	7.7	12	5.27
V	1530.2	-2	2917.1	-2	138.6	934	95.3	NM	9.1	0.9	NM	0	1.48
ational Intergroup (9)	1015.8	29	1943.2	18	2.8	157	6.7	NM	0.3	0.1	-1.1	NM	-0.20
all (5)	176.9	-1	343.2	0	27.2	10	46.1	11	15.4	13.8	15.8	28	0.96
emark International	731.5	3	1409.9	4	31.2	13	51.7	42	4.3	3.9	14.0	10	3.62
ackwell International (3)	2703.0	-9	5461.0	-9	122.6	-19	221.6	-28	4.5	5.1	18.6	11	2.20
ledyne	744.8	-9	1463.3	-10	7.4	-33	19.2	-27	1.0	1.3	-7.3	NM	-0.59
nneco	3435.0	0	6645.0	-1	105.0	NM	140.0	NM	3.1	NM	-20.2	NM	-4.52
xtron	2160.6	8	4155.1	6	84.1	14	160.1	14	3.9	3.7	10.8	11	3.62
W	2154.0	9	4185.0	7	60.0	150	101.0	71	2.8	1.2	-5.8	NM	-1.66
alhi	209.6	9	405.2	11	0.5	NM	-2.2	NM	0.2	26.5	-2.6	NM	-0.08
hitman	609.2	0	1107.0	1	25.4	9	30.7	40	4.2	3.8	19.4	16	0.84

CONSUMER PRODUCTS

INDUSTRY COMPOSITE	51995.2	9	100691.3	7	4070.5	21	7306.9	21	7.8	7.0	20.6	20	1.88
PPAREL													
ROUP COMPOSITE	5368.1	12	10806.7	12	281.7	15	624.0	19	5.2	5.1	18.6	15	2.23
rown Group (11)	437.0	4	870.7	1	-20.8	NM	-20.5	NM	NM	0.9	-3.1	NM	-0.52
uit of the Loom	534.1	14	957.4	17	57.0	57	93.1	79	10.7	7.7	21.2	18	2.02
artmarx (1)	273.6	-7	578.3	-6	-5.7	NM	-12.3	NM	NM	NM	-15.4	NM	-1.87
ellwood (8)	250.8	17	454.8	15	8.2	45	10.3	69	3.3	2.6	8.8	14	1.89
eslie Fay	156.2	-9	366.8	-12	1.6	NM	12.4	21	1.0	0.0	13.9	9	1.66
z Claiborne	472.6	14	1029.5	12	39.5	0	102.3	2	8.4	9.5	23.5	13	2.64
ike (7)	847.6	18	1714.6	13	70.7	21	153.2	19	8.3	8.2	24.7	16	4.30
xford Industries (7)	136.4	16	262.1	10	3.2	102	6.1	91	2.4	1.4	11.8	12	1.42
hillips-Van Heusen (11)	208.3	15	440.4	10	-0.1	NM	8.4	94	NM	NM	29.1	18	1.19
ebok International	702.0	2	1499.4	8	45.8	-24	108.1	-9	6.5	8.8	25.7	12	2.40
ussell	186.7	11	382.9	20	12.4	96	27.9	191	6.7	3.8	14.4	18	1.82

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-24	12 MONTH EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
Stride Rite (1)	171.0	11	310.0	5	21.8	16	38.8	10	12.7	12.2	27.2	15	1.34
VF	852.5	30	1670.1	32	46.2	51	89.9	52	5.4	4.7	20.3	13	3.25
Warnaco Group	139.2	11	269.7	9	1.8	NM	6.2	NM	1.3	NM	-7.6	NA	NA
(b) APPLIANCES & HOME FURNISHINGS													
GROUP COMPOSITE	6352.6	7	12659.0	7	198.6	29	361.1	42	3.1	2.6	7.8	24	0.95
Armstrong World Industries	651.7	4	1290.1	5	23.3	-5	41.5	3	3.6	3.9	7.0	26	1.12
Best Buy (10)	246.5	49	586.4	54	1.2	207	6.4	58	0.5	0.2	6.6	16	1.00
Circuit City Stores (10)	644.8	16	1548.2	19	11.4	42	55.4	60	1.8	1.4	17.7	18	1.77
Heilig-Meyers (10)	150.9**	21	298.3	25	10.5	42	17.3	52	7.0	6.0	10.9	20	1.55
La-Z-Boy Chair (8)	175.4	6	324.2	2	8.6	2	13.7	-6	4.9	5.1	10.2	17	1.39
Ladd Furniture	125.1	10	243.1	8	1.7	351	2.7	NM	1.4	0.3	-8.4	NM	-0.50
Leggett & Platt	283.9	0	568.6	4	14.8	52	28.7	66	5.2	3.4	13.3	16	1.39
Masco	867.0	11	1718.0	12	48.5	95	89.3	114	5.6	3.2	5.1	41	0.67
Maytag	770.1	-1	1523.2	1	23.3	24	51.8	53	3.0	2.4	9.5	17	0.92
Pier 1 Imports (10)	152.1	5	186.3	-32	8.1	-31	12.7	32	5.3	8.0	12.8	13	0.62
Toro (5)	224.1	7	383.4	-4	9.4	10	-2.6	NM	4.2	4.1	-6.7	NM	-0.87
Whirlpool	1781.0**	3	3444.0	5	53.0	-9	88.0	7	3.0	3.4	11.5	15	2.52
Zenith Electronics	280.0	2	545.2	-6	-15.2	NM	-43.8	NM	NM	NM	-15.9	NM	-1.52
(c) BEVERAGES													
GROUP COMPOSITE	14088.7	13	26014.5	12	1343.4	15	2221.8	14	9.5	9.4	22.1	26	1.52
Anheuser-Busch	2953.4	4	5574.5	3	317.2	11	541.2	11	10.7	10.1	21.5	16	3.45
Brown-Forman (8)	306.4	23	619.9	15	31.5	16	65.9	1	10.3	10.9	20.2	16	5.29
Coca-Cola	3550.4	17	6322.3	15	581.0	20	964.1	20	16.4	15.9	43.3	30	1.33
Coca-Cola Bottling Consolidated	173.9	39	322.0	42	3.8	42	1.5	42	2.2	2.2	0.4	NM	0.00
Coca-Cola Enterprises	1386.0	29	2497.0	27	9.0	-74	6.0	-87	0.7	3.2	-8.5	NM	-1.00
Coors (Adolph)	507.9	10	891.4	7	17.8	11	18.6	-17	3.5	3.5	1.8	36	0.51
PepsiCo	5210.8	11	9787.5	11	383.0	20	624.5	19	7.4	6.8	19.7	25	1.40
(d) PERSONAL CARE													
GROUP COMPOSITE	5460.5	12	10657.6	11	401.8	17	697.8	8	7.4	7.1	21.2	26	1.84
Alberto-Culver (3)	279.3	26	553.5	27	9.1	116	19.3	46	3.3	1.9	14.2	18	1.33
Avon Products	886.3	7	1696.5	6	59.9	15	17.8	-75	6.8	6.3	87.2	22	2.30
Block Drug (9)	153.4	12	298.2	11	16.0	12	30.8	9	10.4	10.4	13.2	14	3.22
Church & Dwight	128.4**	9	243.9	7	7.4	31	11.8	-3	5.8	4.8	17.7	20	1.28
Colgate-Palmolive	1799.6	19	3400.1	14	124.4	33	238.2	29	6.9	6.2	7.9	54	0.92
Ecolab	247.2	12	481.2	12	14.3	-5	25.6	13	5.8	6.8	19.4	17	1.91
Gillette	1198.9	10	2405.7	9	120.5	18	249.9	20	10.1	9.4	38.8	24	2.10
Helene Curtis Industries (10)	245.1	10	539.4	14	2.5	10	9.0	86	1.0	1.0	11.7	17	2.00
NCH (8)	168.1	3	341.0	1	7.8	-19	18.0	-13	4.6	5.8	14.4	14	4.77
Stanhome	184.8	8	353.6	8	11.4	20	19.6	20	6.2	5.6	20.3	13	2.33
Tambrands	169.4	-5	344.3	3	28.4	-21	57.7	-6	16.8	20.2	42.4	35	1.87
(e) TOBACCO													
GROUP COMPOSITE	20725.3	5	40553.6	3	1845.0	26	3402.2	28	8.9	7.4	23.6	16	2.31
American Brands	3245.0*	10	7078.6	4	202.6	9	447.8	11	6.2	6.3	19.9	11	4.11
Culbro (1)	299.2***	4	561.3	7	2.3	NM	1.5	280	0.8	NM	3.6	15	0.91
Philip Morris	12935.0	3	24789.0	1	1353.0	20	2452.0	20	10.5	9.0	34.1	16	4.77
RJR Nabisco Holdings	3983.0	5	7626.0	5	209.0	165	353.0	320	5.2	2.1	7.0	18	0.51
UST	263.1*	19	498.7	18	78.1	17	147.9	17	29.7	30.3	59.5	23	1.22
7 CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	6395.0	4	12230.9	4	210.2	14	363.2	14	3.3	3.0	7.5	26	1.00
(a) GLASS, METAL & PLASTIC													
GROUP COMPOSITE	2798.0	2	5183.9	4	114.6	47	182.8	72	4.1	2.8	12.3	19	1.22
Ball	674.0	6	1220.3	12	20.0	-13	31.8	-6	3.0	3.6	11.5	14	2.33
Constar International	163.6	16	318.0	19	6.1	35	11.4	38	3.8	3.2	12.6	16	1.33
Crown Cork & Seal	1018.1	-3	1857.5	-1	48.7	26	75.1	22	4.8	3.7	13.0	20	1.67
Owens-Illinois	942.3	2	1788.1	3	39.7	242	64.5	NM	4.2	1.3	11.3	26	0.47
(b) PAPER													
GROUP COMPOSITE	3597.0	6	7047.0	5	95.6	-11	180.4	-15	2.7	3.2	5.7	31	0.92
Bemis	297.5	4	587.0	4	15.5	18	26.2	23	5.2	4.6	17.3	23	1.11
Federal Paper Board	345.3	-1	668.4	-2	25.5	4	42.4	-19	7.4	7.1	7.0	19	1.51
Greif Bros. (2)	129.0	27	250.8	25	8.6	201	13.8	226	6.6	2.8	11.4	14	2.64
Longview Fibre (2)	172.9	9	325.6	5	9.7	195	13.6	187	5.6	2.1	6.7	32	0.47
Nashua	135.3	2	256.1	-3	0.3	-53	0.5	-37	0.2	0.5	0.2	NM	0.00
Sonoco Products	461.6	9	891.4	7	29.6	32	52.3	16	6.4	5.3	17.9	19	2.33
Stone Container	1371.1	3	2725.3	2	-41.2	NM	-51.0	NM	NM	NM	-7.3	NM	-1.51
Temple-Inland	684.4	11	1342.4	10	47.7	17	82.5	0	7.0	6.6	8.9	19	2.47
8 DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	76089.1	10	166655.4	9	1419.6	23	2663.0	-29	1.9	1.7	9.3	24	1.47
Ames Department Stores (11)	483.6	-25	1304.9	-18	-37.7	NM	-29.6	NM	NM	NM	NM	NM	-7.67
AutoZone (4)	239.8	30	436.8	29	14.3	49	25.2	63	6.0	5.2	23.1	36	0.87
Biair	134.1**	-3	253.2	1	10.4	0	18.3	12	7.8	7.5	21.7	13	3.57

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE- EARNINGS RATIO 7-24	12 MONTHS' EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
Ador (11)	412.5	9	1049.3	7	-4.0	NM	24.3	532	NM	NM	14.0	12	1.58
After Hawley Hale Stores (11)	433.6**	1	1126.9	-5	-20.4	NM	-122.7	NM	NM	NM	NM	NM	-5.47
Arming Shoppes (11)	262.5	18	558.1	16	16.1	56	35.8	44	6.1	4.6	16.9	26	1.20
L Group (5)	138.7	80	309.9	56	7.6	174	29.4	74	5.5	3.6	29.9	21	2.10
Consolidated Stores (11)	192.0	22	442.8	19	3.4	NM	20.3	229	1.8	NM	13.9	23	0.53
Costco Wholesale (4)	1500.7	26	3073.6	26	20.4	21	53.7	39	1.4	1.4	14.0	32	0.88
Cyton Hudson (11)	3719.0**	11	8968.0	9	35.0	3	227.0	-16	0.9	1.0	12.4	16	3.87
ard Department Stores (11)	1076.1**	17	2436.9	12	45.1	18	138.4	6	4.2	4.1	13.1	18	1.91
lar General (11)	188.6	27	431.6	23	3.9	230	16.2	60	2.1	0.8	15.7	23	0.90
son Brothers Stores (11)	326.9	9	767.6	6	9.8	10	38.7	1	3.0	3.0	15.8	13	2.86
ri-Centers of America (11)	131.6	33	290.1	25	1.9	34	13.9	36	1.5	1.4	12.4	7	1.86
nily Dollar Stores (4)	279.8	12	597.6	18	15.1	24	33.1	37	5.4	4.9	20.1	16	0.95
erated Department Stores (11)	1571.7**	-1	3706.0	-4	11.8	NM	-955.2	NM	0.8	NM	-79.1	NA	NA
gerhut p (11)	359.1	17	668.5	8	11.2	16	20.8	15	3.1	3.1	14.0	13	2.20
ossman's	588.9	20	1392.3	25	45.3	11	129.2	33	7.7	8.3	31.8	19	1.65
chinger (11)	249.8	1	403.4	2	5.0	19	0.9	-42	2.0	1.7	1.9	33	0.12
	439.9	12	797.5	14	-51.0	NM	-52.5	NM	NM	1.8	-7.1	NM	-0.75
s Department Stores (11)	359.1	11	908.5	-9	-14.0	NM	10.4	NM	NM	NM	NM	1	0.76
me Depot (11)	1639.6	38	2938.3	34	79.5	55	147.1	59	4.8	4.3	15.8	56	0.85
me Shopping Network (4)	269.3	3	544.8	3	9.0	123	16.9	NM	3.3	1.5	15.5	17	0.33
use of Fabrics (11)	126.3	25	279.6	29	2.7	-21	11.0	12	2.1	3.3	10.7	10	1.30
mesway (11)	182.5	5	436.9	-3	-3.4	NM	-0.9	NM	NM	NM	-1.1	NM	-0.08
art (11)	8326.0**	8	19044.0	8	116.0	8	595.0	17	1.4	1.4	13.4	12	1.97
nl's (4)	237.0	9	494.8	11	-3.4	NM	5.1	-48	NM	1.5	193.8	38	0.47
ds' End (11)	140.5	11	411.4	16	4.3	185	24.6	49	3.0	1.2	24.8	18	1.70
ited (11)	1415.6**	10	3471.8	15	51.5	1	251.9	13	3.6	4.0	20.9	18	1.11
ve's (11)	883.3	27	1592.9	25	23.8	107	-19.5	NM	2.7	1.7	2.7	88	0.26
cy (R. H.) (5)	1304.9**	-6	3360.8	-6	-225.9	NM	-897.4	NM	NM	NM	NM	NA	NM
y Department Stores (11)	2388.0**	3	5750.0	3	81.0	7	347.0	6	3.4	3.3	20.6	14	4.05
ville	2495.1	10	4554.4	6	77.9	30	65.1	13	3.1	2.6	20.1	14	3.26
rcantile Stores (11)	587.8**	13	1383.6	6	8.2	-66	49.3	-29	1.4	4.7	8.0	12	2.66
rry-Go-Round Enterprises (11)	171.4	9	421.4	12	7.1	-19	4.6	-80	4.1	5.5	10.3	37	0.39
yer (Fred) (11)	824.8	8	1540.8	7	11.6	44	31.7	34	1.4	1.0	12.4	14	1.91
man Marcus Group (5)	417.2**	6	958.4	3	9.0	NM	20.4	188	2.2	NM	NM	NM	-0.22
rdstrom (11)	663.8	9	1641.9	9	21.6	-16	62.4	-13	3.3	4.2	13.8	16	1.61
nida Holdings (11)	136.9	-3	301.5	-10	-1.3	NM	2.0	NM	NM	NM	9.7	18	0.15
ney (J. C.) (11)	4075.0	10	9728.0	5	136.0	70	173.0	-40	3.3	2.2	8.0	29	2.45
Boys-Manny, Moe & Jack (11)	275.6	17	519.0	16	10.8	50	20.4	47	3.9	3.1	9.1	31	0.75
rie Stores (11)	323.0	1	710.8	2	6.9	-28	13.6	64	2.1	3.0	2.1	76	0.29
ie (4)	1695.3**	10	3252.9	11	28.5	13	49.1	-7	1.7	1.6	16.9	12	2.66
C Network (11)	233.2**	21	514.8	16	11.5	702	21.4	106	4.9	0.7	9.0	25	0.89
e's Stores (11)	291.4	-7	712.0	-8	-4.0	NM	-20.5	NM	NM	NM	-19.3	NM	-1.43
s Stores (11)	221.0	11	502.2	12	3.3	61	16.9	42	1.5	1.0	17.2	10	1.16
rs, Roebuck	14272.9**	1	27781.4	3	345.8	16	667.6	24	2.4	2.1	10.0	10	3.94
vice Merchandise	781.5	5	1446.2	7	6.0	12	-3.4	NM	0.8	0.7	84.2	11	0.80
pKo Stores (10)	468.4	3	923.5	9	10.9	5	32.1	3	2.3	2.3	15.7	9	1.57
egel	466.0	12	892.0	3	0.1	-91	1.2	-52	0.0	0.3	3.5	39	0.30
awbridge & Clothier (11)	205.6**	-1	543.1	2	-0.9	NM	17.4	24	NM	0.1	5.0	17	1.26
(11)	670.9	11	1470.6	12	15.1	2	29.2	-3	2.3	2.5	26.5	19	1.01
s 'R' Us (11)	1172.5	14	4033.2	13	28.3	26	289.9	12	2.4	2.2	14.1	30	1.17
s. Shoe (11)	647.5	-4	1341.9	-3	2.8	-77	15.4	NM	0.4	1.8	6.0	18	0.67
ue City Department Stores (5)	146.5	11	354.5	13	4.5	-16	18.6	-25	3.1	4.1	22.5	14	0.99
ture Stores (11)	364.0**	16	885.9	12	5.6	50	34.0	13	1.5	1.2	34.9	10	2.59
ban (11)	736.0	19	1472.6	18	6.2	40	16.8	116	0.8	0.7	8.0	19	1.04
l-Mart Stores (11)	11649.4	26	25288.2	29	387.0	26	989.4	25	3.3	3.3	23.1	37	1.47
olworth (11)	2096.0**	-1	5232.0	1	17.0	31	-111.0	NM	0.8	0.6	-2.5	NM	-0.38

ELECTRICAL & ELECTRONICS

INDUSTRY COMPOSITE	24502.6	4	47851.3	4	1323.9	43	2520.8	34	5.4	3.9	7.3	29	1.23
ELECTRICAL PRODUCTS													
INDUSTRY COMPOSITE	6439.6	2	12401.5	2	299.9	23	521.6	11	4.7	3.8	-5.6	NM	-1.05
eman	154.8	23	259.0	21	16.1	58	23.8	65	10.4	8.1	12.3	25	0.88
pper Industries	1529.6**	-5	3037.5	-2	115.4	6	186.4	7	7.5	6.8	10.7	15	3.12
obell	195.4	-1	383.2	1	24.4	3	48.0	4	12.5	12.1	17.5	16	2.92
ional Service Industries (4)	415.6	3	806.1	2	19.8	NM	35.5	NM	4.8	NM	10.2	18	1.39
ychem (6)	350.6	10	663.6	4	-25.8	NM	-20.3	NM	NM	NM	-2.3	NM	-0.43
iance Electric	383.0	1	756.0	0	13.0	18	19.0	-14	3.4	2.9	32.4	54	0.33
mas & Betts	264.7	88	524.2	80	15.0	22	15.2	-43	5.7	8.7	8.4	29	2.09
stinghouse Electric	3146.0	-1	5972.0	0	122.0	-4	214.0	-5	3.9	4.0	-31.7	NM	-3.74
ELECTRONICS													
INDUSTRY COMPOSITE	8461.2	5	16616.4	4	424.9	12	814.3	10	5.0	4.7	12.3	15	3.73
ystems	486.2	3	983.4	4	29.4	10	57.0	10	6.1	5.6	14.9	10	3.50
on Industries (5)	1521.2	11	2887.4	10	44.7	6	88.0	7	2.9	3.1	5.4	28	1.71
al (9)	681.3	1	1475.2	1	29.0	30	69.5	31	4.3	3.3	12.9	9	4.00

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-24	12 MONTH EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
Motorola	3141.0	12	6196.0	12	146.0	23	273.0	16	4.6	4.2	10.0	23	3.7
Raytheon	2321.0	-2	4449.0	-4	165.6	9	309.0	8	7.1	6.4	17.8	10	4.6
Varian Associates (3)	310.5	-15	625.3	-14	10.1	-37	17.9	-44	3.3	4.4	8.9	18	2.0
(c) INSTRUMENTS GROUP COMPOSITE	4320.5	4	8579.1	4	173.3	40	364.6	37	4.0	3.0	13.9	14	2.2
Ametek	195.3	7	392.1	9	11.8	24	23.1	28	6.0	5.2	20.4	16	0.9
Beckman Instruments	225.1	2	438.1	5	10.7	15	20.0	15	4.8	4.2	11.5	14	1.4
Honeywell	1485.8	-2	2967.4	-1	85.1	10	201.9	35	5.7	5.1	20.4	12	5.4
Imo Industries	245.5	-3	474.7	-8	0.8	-69	2.1	-66	0.3	1.0	2.2	28	0.4
Johnson Controls (3)	1307.0	15	2490.5	13	36.4	24	52.9	35	2.8	2.6	11.7	15	2.4
Millipore	188.3	0	385.4	2	5.2	-65	20.7	-31	2.7	7.9	10.3	17	1.7
Perkin-Elmer (5)	228.0	8	456.8	5	13.8	NM	30.2	NM	6.1	NM	17.0	19	1.5
Tektronix (7)	310.7	-3	705.5	-2	4.9	-65	2.1	-92	1.6	4.4	4.5	27	0.6
Teradyne	134.8	3	268.7	8	4.6	6	11.7	206	3.4	3.3	8.1	14	0.6
(d) SEMICONDUCTORS GROUP COMPOSITE	5281.2	8	10254.3	7	425.9	137	820.3	102	8.1	3.7	9.7	23	1.4
Advanced Micro Devices	350.2	18	757.6	33	41.4	140	126.3	488	11.8	5.8	27.4	3	2.0
AMP	827.0	7	1645.6	5	72.1	11	142.2	6	8.7	8.3	13.8	21	2.0
Analog Devices (2)	142.9	1	274.2	0	3.9	-41	2.9	-72	2.7	4.6	0.2	NM	0.0
Intel	1319.7	5	2561.0	7	213.2	-8	397.2	-7	16.2	18.4	16.8	16	3.0
LSI Logic	151.8	-16	302.4	-16	-5.9	NM	-5.5	NM	NM	2.5	-1.3	NM	-0.0
Micron Technology (4)	131.1	3	259.3	17	1.7	-76	3.1	-35	1.3	5.5	2.6	43	0.0
National Semiconductor (7)	491.5	10	893.3	7	27.5	310	42.0	259	5.6	1.5	-24.1	NM	-1.0
Texas Instruments	1867.0	11	3561.0	7	72.0	NM	112.0	NM	3.9	NM	-7.8	NM	-1.0
10 FOOD INDUSTRY COMPOSITE	67282.2	2	133078.4	1	1674.8	-4	3020.0	-10	2.5	2.6	20.2	18	1.0
(a) FOOD DISTRIBUTION GROUP COMPOSITE	9820.3	2	19814.2	3	88.5	-6	201.1	4	0.9	1.0	13.1	12	1.4
Fleming	2964.9	-1	6882.2	0	25.5	0	62.8	8	0.9	0.8	7.7	15	2.0
Nash Finch	567.9**	3	1099.8	3	4.8	6	7.0	6	0.8	0.8	10.7	10	1.0
Richfood Holdings (8)	338.9	11	590.2	9	5.1	44	8.7	49	1.5	1.2	22.6	14	1.0
Rykoff-Sexton (8)	378.0	3	767.9	7	2.8	-21	4.3	-26	0.7	1.0	6.7	16	1.0
Smart & Final	176.8	12	334.5	12	4.1	NM	6.2	NM	2.3	NM	12.6	22	0.0
Super Food Services (4)	358.1**	-13	770.4	-6	-12.2	NM	-10.1	NM	NM	0.6	-2.7	NM	-0.0
Super Rite (10)	313.8	22	619.0	23	1.8	42	4.5	NM	0.6	0.5	6.3	43	0.0
Super Valu Stores (10)	3284.3	4	5913.0	7	45.6	2	93.2	1	1.4	1.4	20.2	9	2.0
Wetterau (9)	1437.8**	1	2837.4	0	11.0	-20	24.6	-2	0.8	1.0	18.1	14	2.0
(b) FOOD PROCESSING GROUP COMPOSITE	28685.1	5	55388.9	4	1406.8	9	2649.1	11	4.9	4.7	22.4	19	2.0
American Maize-Products	147.1	4	272.2	5	5.5	25	5.7	24	3.8	3.1	8.6	11	2.0
Borden	1763.4	-2	3461.8	-2	81.9	-9	143.0	-7	4.6	5.0	14.5	16	1.0
Campbell Soup (5)	1536.3	3	3282.6	1	91.5	20	252.1	19	6.0	5.1	24.2	20	1.0
ConAgra (7)	5574.6	12	10423.1	4	107.9	4	192.0	11	1.9	2.1	16.1	19	1.0
CPC International	1672.6	2	3206.9	2	113.2	9	201.5	8	6.8	6.3	27.1	18	2.0
Dean Foods (7)	640.6	14	1206.8	11	15.4	-34	29.2	-27	2.4	4.1	13.8	18	1.0
Dole Food	901.8	-2	1655.0	2	40.1	-25	66.8	-15	4.4	5.8	11.5	14	2.0
Doskocil	184.1	-10	360.3	-12	-1.4	NM	-1.0	NM	NM	NM	-36.1	NM	-6.0
General Mills (7)	2000.5	9	3868.8	8	103.1	13	235.2	6	5.2	5.0	36.7	22	3.0
Gerber Products (9)	315.5	8	654.7	8	34.4	2	78.2	39	10.9	11.5	28.2	20	3.0
Heinz (H. J.) (8)	1866.9	2	3489.3	1	145.7	-7	261.0	-8	7.8	8.5	28.1	16	2.0
Hershey Foods	621.8	6	1422.8	12	34.5	8	93.4	16	5.5	5.5	17.0	16	2.0
Hormel (Geo. A.) (2)	672.3	-4	1300.8	-7	20.0	21	37.0	0	3.0	2.4	14.4	19	1.0
Hudson Foods (3)	199.5	0	389.6	5	3.0	-2	0.3	-92	1.5	1.5	3.4	26	0.0
IBP	2823.8	6	5476.7	5	12.5	NM	31.9	NM	0.4	NM	10.5	17	1.0
Interstate Bakeries (7)	276.8	5	617.3	5	7.9	NM	14.0	NM	2.8	NM	14.3	12	1.0
International Multifoods (10)	547.6	-1	1099.4	0	6.0	0	15.3	7	1.1	1.1	12.4	13	2.0
Kellogg	1584.0	12	3099.1	9	168.1	10	364.3	16	10.6	10.8	30.1	24	2.0
McCormick (1)	336.6	1	658.9	0	18.9	27	36.3	20	5.6	4.5	21.8	23	1.0
Pioneer Hi-Bred International (4)	824.0	13	1002.9	16	197.8	23	191.6	27	24.0	22.1	23.4	16	1.0
Ralston Purina (3)	1856.9	5	3723.2	4	75.9	7	162.0	-4	4.1	4.0	56.2	14	3.0
Seaboard	241.9	18	464.8	22	5.3	64	12.9	40	2.2	1.6	10.1	10	1.0
Smithfield Foods (8)	234.0	-11	549.6	-4	3.0	-65	13.5	-37	1.3	3.3	19.6	11	1.0
Smucker (J. M.) (8)	121.0	3	233.0	6	9.1	9	15.9	8	7.6	7.2	16.1	24	1.0
Thorn Apple Valley (7)	156.3	-17	311.8	-16	5.5	24	8.7	-8	3.5	2.3	31.1	6	5.0
Tyson Foods (3)	1021.9	0	2062.4	6	44.3	9	81.1	10	4.3	4.0	17.5	17	1.0
Universal Foods (3)	223.2	1	446.4	6	12.7	-7	25.4	-3	5.7	6.2	18.5	13	2.0
Wrigley (Wm.) Jr.	340.0	13	648.6	11	44.8	17	81.9	17	13.2	12.7	29.2	22	3.0

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE EARNINGS RATIO 7-24	12 MONTHS' EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
FOOD RETAILING													
INDUSTRY COMPOSITE	28776.9	-2	57875.4	-1	179.5	-49	169.9	-77	0.6	1.2	14.5	19	0.95
Walmart Stores (11)	2296.8	6	4495.5	5	32.9	-44	113.8	-14	1.4	2.7	19.3	24	1.75
American Stores (11)	4924.1	-9	10140.7	-9	19.2	-47	78.1	-36	0.4	0.7	14.7	11	3.23
Key's General Stores (8)	144.5***	6	285.7	1	1.4	40	4.1	15	1.0	0.7	12.2	13	1.04
Walmart Convenience Stores (11)	134.8*	-2	267.2	-4	0.0	NM	0.5	NM	0.0	NM	11.3	9	0.81
Champs (6)	245.3	6	481.8	4	2.7	-57	5.2	-47	1.1	2.7	5.3	23	0.81
Food Centers (11)	265.6	-5	539.6	-5	2.4	5	5.1	NM	0.9	0.8	13.9	9	0.83
Food Lion	1643.9	10	3240.4	11	52.6	6	102.2	9	3.2	3.3	23.7	23	0.44
Harmons Supermarkets (2)	171.7	4	349.2	4	0.5	19	0.8	541	0.3	0.2	0.5	NM	0.12
Food (10)	803.0	2	1954.7	6	19.1	-35	43.8	-37	2.4	3.7	12.4	16	1.29
at Atlantic & Pacific Tea (10)	3316.2	-8	6056.2	-5	-66.4	NM	-50.4	NM	NM	1.0	-2.6	NM	-0.84
Winford Brothers	512.5**	4	999.2	2	12.6	6	21.4	7	2.5	2.4	14.5	16	1.11
ger	5072.2	0	10110.7	1	4.5	-86	25.5	-41	0.1	0.6	NM	15	0.92
in Traffic (11)	684.6**	2	1389.7	1	-2.3	NM	0.3	NM	NM	NM	-24.3	NM	-0.47
ick (3)	400.1	6	787.7	6	8.0	7	15.4	11	2.0	2.0	12.3	13	1.28
eway	3450.7	-2	6846.6	-1	33.3	-6	56.2	-10	1.0	1.0	35.1	22	0.59
way Food Town (4)	139.4	-2	279.2	-2	0.6	NM	1.0	NM	0.4	0.0	8.3	9	1.31
th's Food & Drug Centers	640.1	17	1309.6	21	13.5	25	26.7	26	2.1	2.0	10.2	15	1.70
o & Shop (11)	1006.9	2	2328.0	-3	15.8	23	46.9	26	1.6	1.3	15.4	17	0.79
ermarkets General Holding (11)	1139.2	-22	2459.6	-18	-6.9	NM	-395.2	NM	NM	NM	NM	NA	NA
age Super Market (5)	179.0	6	358.9	5	0.4	-16	-0.6	NM	0.2	0.3	0.7	59	0.11
s	1286.0	3	2554.2	3	17.3	10	32.4	14	1.3	1.3	14.0	14	1.58
s Markets	320.2	0	640.9	-1	18.2	-6	36.7	-9	5.7	6.1	11.7	14	1.74
EL													
INDUSTRY COMPOSITE	101695.1	2	198856.8	-5	2635.1	-27	5223.9	-46	2.6	3.7	7.3	27	1.69
EL													
INDUSTRY COMPOSITE	1126.8	9	2197.0	7	18.3	-22	34.2	-16	1.6	2.3	0.5	NM	0.10
land Coal	144.6	35	255.4	16	8.1	-21	15.4	-13	5.6	9.6	13.6	11	2.18
co Industries	345.5	7	662.4	5	1.4	-70	2.5	-61	0.4	1.4	4.8	24	1.86
ston	506.4**	8	995.5	8	11.6	17	18.8	3	2.3	2.1	-9.1	NM	-0.79
storeland Coal	130.2	-5	283.6	2	-2.7	NM	-2.5	NM	NM	NM	-10.0	NM	-1.74
& GAS													
INDUSTRY COMPOSITE	95521.1	3	186583.0	-5	2456.0	-26	4847.0	-47	2.6	3.6	7.1	27	1.76
erada Hess	1480.1**	3	2930.7	-16	4.4	-94	-19.0	NM	0.3	4.7	-2.6	NM	-0.96
oco	6628.0	9	12280.0	-3	-478.0	NM	-244.0	NM	NM	3.9	1.4	NM	0.41
iche	131.2**	117	223.4	74	24.0	265	28.1	50	18.3	10.9	10.0	19	0.94
land Oil (3)	2478.5	11	4574.8	8	31.6	-53	22.5	-76	1.3	3.0	7.9	13	1.94
intic Richfield	4521.0*	6	8848.0	-1	309.0	26	489.0	-18	6.8	5.8	8.9	30	3.74
ington Resources	252.8	8	527.0	6	33.2	186	65.6	34	13.1	5.0	5.6	32	1.24
vron	10600.0***	9	20300.0	-1	350.0	-9	654.0	-31	3.3	4.0	7.0	23	2.92
stal	2398.6	10	4934.7	4	35.6	36	58.0	-28	1.5	1.2	3.6	40	0.70
mond Shamrock	648.0	3	1233.6	-3	23.5	33	12.7	-42	3.6	2.8	6.6	16	0.97
on	24770.0**	1	49725.0	-5	955.0	-15	2305.0	-32	3.9	4.6	13.4	17	3.60
y (5)	123.5	10	233.5	-1	2.3	-37	-7.2	NM	1.8	3.2	-20.4	NM	-0.51
-McGee	876.2	12	1658.9	6	30.3	194	38.9	-3	3.5	1.3	6.7	20	2.08
siana Land & Exploration	192.3**	-11	375.2	-7	4.8	7	-21.1	NM	2.5	2.1	-3.1	NM	-0.46
ro	674.9**	4	1334.0	-1	23.2	673	57.9	-2	3.4	0.5	28.8	14	4.17
us Energy	166.7	-11	335.5	-16	-3.6	NM	-41.9	NM	NM	NM	NM	NM	-0.91
nell Energy & Development (11)†	186.3	-6	442.5	0	-8.4	NM	4.7	-82	NM	4.7	4.4	30	0.57
il	13617.0**	5	27265.0	-3	255.0	-43	382.0	-67	1.9	3.4	6.7	24	2.72
phy Oil	439.3**	2	805.4	-6	27.5	NM	26.4	NM	6.3	NM	7.7	17	2.04
dental Petroleum	2176.0	-9	4330.0	-16	43.0	-69	64.0	-72	2.0	5.9	4.9	27	0.71
Energy	368.0**	8	700.0	-22	40.0	NM	24.0	-64	10.9	NM	-7.4	NM	-0.45
zoi	684.8**	-1	1327.7	0	10.0	-31	-1.7	NM	1.5	2.1	-7.7	NM	-1.99
ps Petroleum	3090.0**	-5	5849.0	-14	104.0	215	16.0	-93	3.4	1.0	-4.1	NM	-0.41
co	2690.0***	-11	5220.0	-13	6.0	-89	-15.0	NM	0.2	1.8	-9.7	NM	-2.38
co	9400.0**	4	17960.0	-7	245.0	-9	445.0	-35	2.6	3.0	11.1	17	3.69
n Texas Petroleum Holdings	564.8	12	974.0	-3	46.1	126	41.0	3	8.2	4.0	18.1	10	2.25
al	153.0**	-38	349.1	-42	23.0	-84	71.5	-65	15.0	57.8	16.5	14	1.25
Marathon Group	2670.0*	-2	5090.0	-6	66.0	NM	82.0	3	2.5	0.2	3.1	79	0.32
o Energy †	3221.0*	-8	6162.0	-11	226.0	253	261.0	93	7.0	1.8	1.3	NM	0.10
	319.1	17	594.2	6	27.5	9	47.6	4	8.6	9.2	12.5	11	2.34
OIL & GAS SERVICES													
INDUSTRY COMPOSITE	5047.1	-6	10076.8	-4	160.8	-46	342.7	-35	3.2	5.6	10.0	25	1.38
r Hughes (3)	643.2	-9	1265.8	-11	-61.5	NM	-43.4	NM	NM	6.4	2.0	99	0.23
d	148.4	-9	295.6	-1	3.8	-43	7.6	-22	2.6	4.2	6.2	32	0.20
er Industries (2)	953.3	-5	1857.7	-5	20.0	-10	33.4	-4	2.1	2.2	7.7	21	1.00
urton	1621.7	-9	3296.5	-6	12.8	-60	22.2	-63	0.8	1.8	-0.5	NM	-0.10
mberger	1553.2	0	3105.4	1	178.5	-1	334.8	7	11.5	11.6	20.6	18	3.49
rater (9)	127.3	-8	255.8	-4	7.2	-44	-11.9	NM	5.7	9.2	3.9	38	0.40

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE- EARNINGS RATIO 7/24	1 MON'S EARNINGS PER SH.
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
12 HEALTH CARE													
INDUSTRY COMPOSITE	48065.1	11	95366.2	11	4397.3	8	9268.2	11	9.1	9.5	25.2	21	2
(a) DRUG DISTRIBUTION													
GROUP COMPOSITE	13093.8	17	26098.5	15	-143.8	NM	72.3	-81	NM	1.5	6.6	43	0
Arbor Drugs (5)	120.9	19	245.3	18	3.3	20	8.4	22	2.8	2.7	13.8	21	0
Bergen Brunswig (4)	1338.3**	20	2558.2	19	16.0	-1	31.5	-1	1.2	1.5	12.8	15	1
Big B (11)	137.2	3	277.1	3	2.7	39	5.9	36	1.9	1.4	9.5	14	0
Bindley Western Industries	686.8	26	1334.0	22	3.8	31	6.9	22	0.6	0.5	10.4	11	1
Cardinal Distribution (9)	474.3	37	957.5	39	6.1	27	14.7	37	1.3	1.4	12.1	21	1
Drug Emporium (10)	187.8	5	392.5	9	-0.7	NM	-4.3	NM	NM	0.6	-12.1	NM	-0
Durr-Fillauer Medical	261.1	12	523.0	15	4.0	-27	7.9	-17	1.5	2.4	12.8	23	1
Eckerd (Jack) (11)	927.3	3	1926.9	4	3.8	-25	26.5	44	0.4	0.6	NM	NA	1
Fay's (11)	212.2	20	451.1	23	1.5	-16	6.0	-12	0.7	1.0	9.8	18	0
FoxMeyer (9)	938.6	32	1779.2	19	6.4	22	16.9	48	0.7	0.7	5.6	14	0
Genovese Drug Stores (11)	138.1	4	254.3	3	1.3	-13	3.9	-5	0.9	1.1	13.9	10	0
Hook-SupeRx (4)	539.2	8	1096.3	8	4.8	189	13.7	85	0.9	0.3	19.0	80	0
Longs Drug Stores (11)	601.7	6	1250.2	0	13.7	-3	29.3	-6	2.3	2.5	12.7	13	2
McKesson (9)	2836.9**	27	5612.6	27	27.5	9	2.3	-96	1.0	1.1	7.9	40	0
Perry Drug Stores (2)	162.8	8	338.3	7	1.5	39	4.1	58	1.0	0.7	14.4	12	0
Revco D. S. (7)	660.6	13	1183.5	12	-329.3	NM	-313.1	NM	NM	NM	NM	NM	-71
Rite Aid (10)	984.0	8	1994.5	8	33.0	14	77.7	14	3.4	3.2	13.5	15	1
Walgreen (4)	1886.0	11	3924.0	11	56.6	15	133.7	15	3.0	2.9	18.6	21	1
(b) DRUGS & RESEARCH													
GROUP COMPOSITE	16637.0	9	33098.1	8	3002.5	16	6221.5	15	18.0	17.0	31.4	20	2
Allergan	220.7	7	430.8	7	23.1	30	43.2	25	10.5	8.6	-11.1	NM	-0
American Home Products	1756.2	8	3754.7	11	296.1	12	702.4	14	16.9	16.4	42.8	16	4
Amgen	261.3	70	481.5	64	71.6	NM	134.9	NM	27.4	NM	35.3	38	1
Bristol-Myers Squibb	2880.4	6	5663.8	4	488.0	0	1035.5	5	16.9	17.9	36.2	16	4
Carter-Wallace (9)	157.2	-8	330.3	-2	16.0	2	24.5	2	10.2	9.2	11.3	30	1
Genentech	124.6**	6	241.7	2	3.4	-70	6.9	-77	2.7	9.7	2.1	NM	0
Lilly (Eli)	1478.3	7	3035.4	8	338.2	7	780.8	11	22.9	23.1	26.2	14	4
Marion Merrell Dow	906.0	26	1685.0	24	201.0	24	371.0	23	22.2	22.6	41.7	12	2
Merck	2373.6	12	4597.0	10	653.4	18	1222.1	18	27.5	26.2	45.1	25	1
Pfizer	1694.2	4	3455.5	4	203.8	14	498.9	12	12.0	11.0	15.3	33	2
Rhone-Poulenc Rorer	971.1**	5	1868.9	1	89.3	31	161.0	32	9.2	7.4	35.0	20	2
Schering-Plough	1019.6	12	2041.5	10	184.9	10	377.8	11	18.1	18.3	48.0	17	3
Syntex (5)	527.9	12	1058.8	16	125.9	12	247.5	16	23.9	23.8	37.7	16	2
Upjohn	892.5	3	1768.4	6	129.9	2	273.6	5	14.5	14.8	29.8	11	3
Warner-Lambert	1373.3	11	2684.8	9	177.8	15	341.4	16	12.9	12.5	15.0	48	1
(c) HEALTH CARE SERVICES													
GROUP COMPOSITE	8129.5	5	16153.1	8	387.6	16	755.6	20	4.8	4.3	12.2	20	0
American Medical Holdings (4)	565.4	-15	1136.5	-13	91.3	NM	101.2	NM	16.2	0.7	19.1	7	1
Beverly Enterprises	624.2	11	1234.0	11	11.7	43	18.7	48	1.9	1.5	6.8	21	0
Foundation Health (6)	332.2	36	602.4	22	13.0	108	25.2	68	3.9	2.6	25.1	16	2
HCA-Hospital Corp. of America	1286.8	2	2618.8	4	85.2	155	162.2	110	6.6	2.7	5.2	90	0
Health Care & Retirement	122.4	3	240.5	3	6.7	42	12.2	64	5.5	4.0	8.3	17	1
Healthtrust (4)	567.1	6	1140.8	11	27.7	233	49.5	213	4.9	1.6	2.6	NM	0
Hillhaven (7)	295.0**	-10	592.8	-9	5.2	312	8.3	487	1.8	0.4	-59.6	NM	-0
Humana (4)	1627.0	2	3251.0	9	75.0	-26	161.0	-14	4.6	6.3	15.6	11	2
Manor Care (7)	241.8	11	464.9	12	34.7	282	43.9	204	14.3	4.2	24.0	16	1
National Health Laboratories	181.1	18	357.5	21	31.4	16	61.1	19	17.3	17.5	49.6	17	1
National Medical Enterprises (7)	1002.9**	-1	1974.3	0	-54.2	NM	-9.7	NM	NM	7.8	7.4	20	0
OrNda HealthCorp (4)	125.6**	5	250.0	9	-8.0	NM	-8.7	NM	NM	1.2	-3.6	NM	-0
PacificCare Health Systems (3)	451.5	40	880.1	40	14.6	78	24.8	63	3.2	2.6	29.6	17	1
U. S. Healthcare	532.2**	29	1055.3	30	47.0	34	92.4	35	8.8	8.5	45.1	22	2
Universal Health Services	174.4	3	354.3	2	6.1	5	13.6	-13	3.5	3.4	9.6	9	1
(d) MEDICAL PRODUCTS													
GROUP COMPOSITE	10204.9	13	20016.7	12	1151.1	16	2218.8	16	11.3	11.0	23.2	21	1
Abbott Laboratories	1908.7	13	3786.6	13	317.1	18	611.3	17	16.6	15.9	35.9	21	1
Amsco International	122.0	30	214.1	19	8.5	32	14.1	45	7.0	6.9	16.1	23	1
Bard (C. R.)	245.0	12	482.5	12	18.0	25	34.8	24	7.3	6.6	17.3	22	1
Bausch & Lomb	447.5	13	819.4	11	41.1	15	69.7	15	9.2	9.0	12.0	31	1
Baxter International	2421.0	10	4717.0	9	156.0	11	287.0	14	6.4	6.4	15.0	17	2
Becton, Dickinson (3)	590.6	7	1182.6	6	55.5	13	107.1	9	9.4	8.8	13.9	15	4
Johnson & Johnson	3413.0	13	6770.0	10	464.0	14	928.0	13	13.6	13.4	27.3	20	2
Medtronic (8)	333.7	19	633.2	19	47.4	18	86.9	17	14.2	14.3	20.7	28	2
Mine Safety Appliances	128.9	3	257.2	6	5.1	2	8.7	-19	4.0	4.0	6.0	17	2
Owens & Minor	289.7	17	572.2	18	3.6	62	6.7	66	1.2	0.9	10.8	20	0
U. S. Surgical	304.8	50	581.9	48	34.8	64	64.5	73	11.4	10.5	26.8	48	1

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE- EARNINGS RATIO 7:24	12 MONTHS' EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
HOUSING & REAL ESTATE													
INDUSTRY COMPOSITE	7220.6	5	13357.2	5	300.4	54	335.2	260	4.2	2.9	2.7	NM	0.23
BUILDING MATERIALS													
GROUP COMPOSITE	5811.0	5	10739.2	6	252.3	45	250.5	303	4.3	3.1	0.4	NM	-0.06
Highes Supply (11)	122.8	5	243.9	4	0.1	NM	-1.9	NM	0.1	NM	-3.3	NM	-0.63
Large	414.5	-3	625.6	-3	19.0	338	-58.6	NM	4.6	1.0	-4.4	NM	-0.58
Wens-Corning Fiberglass	732.0	0	1358.0	1	22.0	69	28.0	NM	3.0	1.8	NM	NM	-11.52
Gem Industries	166.7	4	294.7	9	2.8	1	0.1	NM	1.7	1.7	4.6	22	0.48
G Industries	1513.1	2	2959.8	4	106.7	35	185.5	84	7.1	5.4	10.4	24	2.69
M (7)	157.1	23	282.6	22	9.9	36	14.2	34	6.3	5.7	15.5	20	1.10
erwin-Williams	772.5	7	1367.1	9	55.1	15	68.1	23	7.1	6.6	16.1	18	1.60
umseh Products	362.8	11	695.2	8	22.1	56	37.9	98	6.1	4.3	8.6	11	5.61
as Industries (7)	149.4**	-3	284.9	-12	-0.4	NM	-6.9	NM	NM	0.1	0.7	NM	0.19
G	441.0	2	867.0	2	-48.0	NM	-98.0	NM	NM	NM	NM	NM	-3.10
Ispor (2)	177.3	9	308.7	9	9.2	36	12.8	46	5.2	4.2	20.1	20	1.45
ican Materials	284.2	7	494.8	7	30.2	17	34.9	47	10.6	9.7	9.4	26	1.68
rk International	517.5	21	956.8	23	23.7	353	34.5	551	4.6	1.2	16.0	26	1.25
CONSTRUCTION & REAL ESTATE													
GROUP COMPOSITE	1409.6	7	2618.0	2	48.1	126	84.6	173	3.4	1.6	10.7	13	1.30
stead Mortgage	123.9**	144	225.8	128	12.6	59	23.8	54	10.1	15.5	12.8	11	3.27
ntex (9)	558.3**	2	1080.7	2	10.0	73	19.4	93	1.8	1.1	7.5	19	2.47
uffman & Broad Home (1)	234.8	-24	419.3	-33	4.0	5	7.4	16	1.7	1.2	9.2	16	0.82
M	316.1**	7	573.2	4	16.0	102	25.5	211	5.1	2.7	14.1	10	2.33
S. Home	176.6**	55	319.1	35	5.6	NM	8.6	NM	3.2	NM	11.2	5	0.19
RECREATION TIME INDUSTRIES													
INDUSTRY COMPOSITE	19233.3	8	36928.2	9	1321.0	42	2151.8	39	6.9	5.3	13.1	21	1.48
ATING PLACES													
GROUP COMPOSITE	2881.6	7	5606.7	6	305.5	13	539.9	14	10.6	10.1	19.5	18	1.96
b Evans Farms (8)	141.5	13	282.9	13	9.9	17	20.3	18	7.0	6.8	14.3	20	0.94
anker International (6)	141.3	19	273.2	21	10.5	25	19.8	33	7.4	7.1	15.1	30	1.15
cher (Carl) Enterprises (11)	158.9	-4	274.7	-3	3.2	20	7.9	139	2.0	1.6	15.1	11	0.75
Donald's	1774.1	6	3392.4	5	254.1	10	441.5	10	14.3	13.9	19.1	18	2.45
arrison (7)	275.8**	10	537.2	8	8.9	29	18.1	27	3.2	2.8	16.0	19	1.31
oney's (2)	256.6**	7	554.1	8	13.9	32	22.9	37	5.4	4.4	NM	19	1.07
zler International (8)	133.5	10	292.2	11	4.9	96	9.5	13	3.7	2.1	7.5	15	0.75
ENTERTAINMENT													
GROUP COMPOSITE	3186.1	17	6287.3	18	280.5	111	490.5	81	8.8	4.9	12.6	24	1.34
ockbuster Entertainment	264.6	26	518.6	34	30.0	40	55.6	49	11.3	10.2	18.1	18	0.64
mmtron (4)	140.1**	11	261.7	10	1.5	24	3.3	8	1.1	1.0	10.1	NA	0.74
ney (Walt) (3)	1853.5	23	3508.6	19	220.8	33	384.9	32	11.9	10.9	18.0	25	1.44
aramount Communications (2)	927.9	7	1998.5	13	28.3	NM	46.7	NM	3.1	NM	5.9	24	1.95
TEL & MOTEL													
GROUP COMPOSITE	3517.8	4	6934.3	5	125.3	59	211.0	105	3.6	2.3	12.0	21	1.16
tar	131.6	7	249.3	6	6.1	141	7.0	NM	4.6	2.0	3.5	18	0.31
lly Mfg.	370.3**	8	741.2	4	4.2	NM	8.0	NM	1.1	NM	-5.2	NM	-0.54
esars World (5)	197.9	-10	451.4	5	9.6	-27	32.7	91	4.9	6.0	19.9	10	3.07
us Circus Enterprises (11)	205.9	4	393.5	5	29.5	12	48.5	18	14.3	13.4	29.7	22	1.90
on Hotels	294.8**	3	571.1	3	32.4	37	54.6	52	11.0	8.2	10.7	22	2.15
arriott	2036.0	5	3989.0	6	29.0	7	40.0	8	1.4	1.4	14.6	22	0.74
omus	281.2	7	538.8	10	14.7	50	20.1	165	5.2	3.7	11.1	22	1.27
HER LEISURE													
GROUP COMPOSITE	9647.9	8	18099.9	8	609.6	36	910.3	29	6.3	5.0	11.1	21	1.45
merican Greetings (10)	372.0	11	789.6	11	25.5	18	52.3	20	6.9	6.5	11.4	15	2.83
unswick	584.5	7	1172.6	13	19.5	NM	31.7	NM	3.3	NM	3.3	47	0.28
rrival Cruise Lines (1)	346.0	13	674.8	12	57.1	21	103.9	23	16.5	15.4	22.8	14	1.96
stman Kodak	5190.0	4	9600.0	2	361.0	1	506.0	-5	7.0	7.2	0.2	NM	-0.04
her-Price	153.4	6	300.2	13	8.6	37	12.0	380	5.6	4.4	7.3	27	0.79
etwood Enterprises (8)	458.3	20	799.4	21	12.7	14	19.1	47	2.8	2.9	8.8	17	1.76
rley-Davidson	273.9	3	521.4	13	17.8	9	26.5	27	6.5	6.1	17.1	23	1.18
sbro	486.0	32	938.5	39	22.7	NM	45.9	NM	4.7	NM	14.3	19	1.58
ffy	180.9	-4	360.5	1	4.9	-32	10.8	-19	2.7	3.8	13.4	10	1.32
ttel	404.3	23	730.4	23	23.4	1	38.2	11	5.8	7.0	27.5	18	1.26
usicland Stores	201.2	11	386.0	13	-1.6	NM	-5.0	NM	NM	NM	6.0	21	0.66
rbord Marine (3)	292.5	2	556.2	7	14.9	NM	16.7	NM	5.1	NM	-3.8	NM	-0.88
aroid	557.7	7	989.0	3	35.5	32	41.7	-3	6.4	5.1	87.9	2	12.49
o Toys	147.1	28	281.4	48	7.6	NM	10.5	NM	5.2	NM	12.4	11	1.49

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE EARNINGS RATIO 7-24	MONTHS EARNINGS IN SHEET
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
15 MANUFACTURING													
INDUSTRY COMPOSITE	26838.6	4	51848.3	3	1076.1	18	1509.2	1	4.0	3.5	7.2	33	12
(a) GENERAL MANUFACTURING GROUP COMPOSITE	10528.2	5	20705.5	5	691.7	9	1278.4	12	6.6	6.3	14.3	22	17
Alliant Techsystems (9)	180.5	-24	679.2	32	5.9	-63	17.4	-22	3.3	6.6	19.6	6	34
Avery Dennison	667.5	7	1337.3	4	22.3	43	42.6	30	3.3	2.5	8.6	23	19
Barnes Group	137.3	-2	271.9	0	-0.4	NM	3.3	-52	NM	3.5	8.9	15	22
Blount (10)	155.9	14	332.6	19	0.4	NM	-1.7	NM	0.3	NM	-1.1	NM	-03
Carlisle	142.2	12	274.7	13	6.5	43	11.9	56	4.6	3.6	5.6	31	12
Corning †	926.7**	19	1719.9	17	71.8	-3	149.6	24	7.7	9.5	16.8	20	10
Crane	338.6	0	652.1	1	-9.5	NM	-0.5	NM	NM	3.7	7.7	32	03
Duracell International (6)	355.7	14	629.5	5	23.4	NM	27.6	NM	6.6	NM	16.5	20	13
Federal Signal	131.9	10	251.7	9	9.3	9	15.5	9	7.1	7.2	19.8	19	04
Great American Management (5)	330.1	11	613.1	6	-1.7	NM	-8.0	NM	NM	0.3	2.1	76	08
Harsco	386.8	-15	794.9	-13	18.8	54	39.6	64	4.9	2.7	18.6	10	30
Hillenbrand Industries (1)	351.5	17	699.6	20	29.3	30	55.9	34	8.3	7.5	20.3	28	13
Illinois Tool Works	717.1	7	1386.6	8	51.2	8	91.4	3	7.1	7.0	14.7	18	38
Jostens (6)	336.4	2	501.9	1	32.8	-9	43.2	-8	9.8	10.9	19.7	17	10
Keystone International	135.1	4	263.3	5	12.0	2	21.3	1	8.9	9.0	9.7	38	08
Mark IV Industries (10)	309.1	8	595.2	8	12.4	68	19.5	61	4.0	2.6	11.2	13	18
Minnesota Mining & Mfg.	3504.0	5	6910.0	3	322.0	8	610.0	2	9.2	8.9	18.1	19	52
Newell	318.0	8	628.1	11	35.2	13	62.6	12	11.1	10.6	17.4	20	17
Nortek	215.9	-13	404.7	-14	0.1	NM	0.2	NM	0.0	NM	-11.4	NM	-19
Rubbermaid †	449.1	8	897.5	8	43.7	12	70.2	-10	9.7	9.4	16.6	32	06
Trinova	439.0	1	861.7	-1	6.2	62	6.7	17	1.4	0.9	-49.2	NM	-68
(b) MACHINE & HAND TOOLS GROUP COMPOSITE	3080.0	11	5905.1	8	86.5	45	144.8	57	2.8	2.2	3.5	54	08
Black & Decker	1132.8	2	2199.3	0	12.2	68	21.2	87	1.1	0.7	6.3	25	08
Cincinnati Milacron	185.6	12	345.6	2	2.8	NM	3.9	NM	1.5	NM	-56.8	NM	-25
Clark Equipment	212.6	14	402.2	9	-4.4	NM	-12.2	NM	NM	NM	-25.2	NM	-42
Danaher	236.6**	17	448.3	11	8.1	90	13.2	62	3.4	2.1	5.7	38	04
Giddings & Lewis	149.7	126	290.6	135	8.4	58	15.7	65	5.6	8.0	10.9	23	07
Kennametal (6)	151.2	-3	304.0	-3	2.7	40	8.1	3	1.8	1.2	5.2	25	10
Snap-on Tools	232.9**	3	459.2	2	19.6	2	38.1	6	8.4	8.5	11.4	17	18
SPX	217.6	23	392.9	18	8.4	133	10.5	855	3.9	2.0	-5.4	NM	-03
Stanley Works	560.9	14	1063.0	13	28.8	11	46.3	11	5.1	5.3	13.8	17	28
(c) SPECIAL MACHINERY GROUP COMPOSITE	9754.9	0	18486.9	-2	193.2	-10	100.3	-68	2.0	2.2	0.0	NM	-01
Applied Materials (2)	180.1	8	347.1	12	9.4	29	15.8	37	5.2	4.4	8.7	22	07
Caterpillar	2600.0	-3	4783.0	-11	-53.0	NM	-185.0	NM	NM	NM	-14.1	NM	-56
Deere (2)	1859.3**	-3	3311.1	-2	44.0	-40	24.1	-20	2.4	3.8	-0.9	NM	-04
Dover	574.1	3	1119.8	1	31.3	-11	61.5	-5	5.5	6.3	15.1	19	23
FMC	1061.1	1	1995.0	4	65.4	5	120.1	19	6.2	6.0	53.3	9	54
General Signal	420.6	4	832.5	4	18.1	19	34.8	18	4.3	3.8	13.7	16	38
Goulds Pumps	147.6	0	282.5	1	8.3	-10	16.1	1	5.7	6.3	13.9	15	11
Harnischfeger Industries (2)	371.5	-11	701.1	-12	13.8	-22	24.4	-23	3.7	4.3	9.6	10	11
Ingersoll-Rand	926.9	0	1788.1	0	38.6	18	65.0	6	4.2	3.6	9.5	17	19
Interlake	171.6	-4	343.5	-4	-2.9	NM	-4.8	NM	NM	NM	NM	NM	-09
Joy Technologies (10)	139.6	-5	302.8	-9	5.4	101	10.0	-22	3.8	1.8	12.7	NM	08
Pentair	296.7	5	589.6	3	8.2	-8	16.9	4	2.8	3.1	14.2	11	34
Stewart & Stevenson Services (11)	181.9	18	367.5	14	9.1	16	19.1	34	5.0	5.1	13.2	23	10
Variety (11)	823.8	21	1723.3	9	-2.4	NM	-117.7	NM	NM	NM	-60.2	NM	-09
(d) TEXTILES GROUP COMPOSITE	3475.6	7	6750.8	8	104.6	1372	-14.3	NM	3.0	0.2	0.6	92	03
Albany International	139.5**	-2	277.4	0	0.2	-96	0.8	-82	0.1	3.1	2.8	56	06
Burlington Industries Equity (3)	535.6	4	1053.1	8	39.7	NM	-112.5	NM	7.4	NM	-28.4	NM	-82
Collins & Aikman (11)	548.2	8	1081.8	3	-17.0	NM	-35.5	NM	NM	NM	-7.8	NA	18
Cone Mills	182.6	12	356.8	16	10.8	910	22.9	NM	5.9	0.7	88.5	11	18
DWG (8)	330.3	11	669.2	8	1.6	NM	0.3	NM	0.5	NM	-8.9	NM	-09
Fieldcrest Cannon	315.1	3	586.4	3	5.4	231	6.0	NM	1.7	0.5	4.1	19	15
Interface	149.3	3	303.8	2	3.4	62	7.2	91	2.3	1.5	6.6	19	02
Shaw Industries (6)	499.8	16	903.7	17	23.4	134	32.3	215	4.7	2.3	15.8	26	03
Springs Industries	486.0	1	948.9	4	11.2	96	16.6	132	2.3	1.2	6.4	19	16
Unifi (6)	289.3	12	569.5	16	25.7	43	47.6	45	8.9	7.0	16.7	24	16
16 METALS & MINING													
INDUSTRY COMPOSITE	14664.1	2	28196.5	0	-79.3	NM	139.7	-48	NM	1.6	-4.1	NM	-03
(a) ALUMINUM GROUP COMPOSITE	5876.1	-4	11327.8	-5	28.6	-85	139.4	-66	0.5	3.0	1.3	84	05
Aluminum Co. of America	2406.1	-6	4657.5	-6	19.6	-76	95.6	-46	0.8	3.2	0.5	NM	-07
Amax	916.5	-5	1793.4	-5	-37.5	NM	-25.3	NM	NM	0.5	-1.5	NM	-07

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE- EARNINGS RATIO 7-24	12 MONTHS' EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
Aluminum	490.9	-3	954.6	-6	12.0	-45	20.4	-65	2.4	4.3	12.6	8	1.24
Alumax	565.0	-2	1094.5	-4	1.4	-92	2.3	-95	0.2	3.0	3.8	16	1.86
Aluminum Metals	1497.6**	-2	2827.8	-2	33.1	-46	46.4	-48	2.2	4.0	3.8	30	1.88
STEEL													
GROUP COMPOSITE	6116.2	6	11759.9	4	1.4	NM	-57.4	NM	0.0	NM	-19.4	NM	-2.85
Achuthan Steel	260.7	-2	525.1	-1	13.4	24	26.7	14	5.2	4.1	11.8	23	1.35
Acme	545.0	40	911.4	14	2.5	NM	-28.0	NM	0.5	NM	-64.7	NM	-3.42
Allegheny Steel	1014.3	-9	2009.7	-7	-63.9	NM	-108.5	NM	NM	NM	NM	NM	-10.93
Arpenter Technology (6)	146.7	-2	309.6	4	-0.8	NM	6.4	-54	NM	5.1	5.0	26	1.63
Commercial Metals (4)	290.4**	1	556.2	-2	2.8	-2	3.2	-26	1.0	1.0	4.9	24	0.94
Land Steel Industries	909.4	5	1805.3	6	1.8	NM	-25.6	NM	0.2	NM	-26.1	NM	-8.66
Lkens	241.5	36	381.6	14	10.1	-22	15.4	-29	4.2	7.3	6.9	32	1.74
Lcor	389.1	5	777.6	8	17.4	30	33.7	23	4.5	3.6	9.8	32	1.65
Region Steel Mills	125.1	-9	251.7	-2	10.5	-22	21.3	-12	8.4	9.9	13.2	12	1.77
Janex (2)	148.4	4	273.3	-4	3.5	68	4.5	-2	2.4	1.5	7.4	22	1.03
EX-U. S. Steel Group	1265.0	9	2434.0	7	6.0	NM	-7.0	NM	0.5	NM	-9.2	NM	-3.32
Leighton Steel	267.3	7	536.8	7	-9.7	NM	-18.8	NM	NM	NM	-20.1	NM	-2.04
Lehigh Valley Steel	235.2	-7	477.0	0	-9.6	NM	-9.5	NM	NM	0.7	-2.7	NM	-0.40
Lehigh Valley Steel	278.0	20	510.7	19	17.3	28	28.9	47	6.2	5.8	14.7	25	0.94
OTHER METALS													
GROUP COMPOSITE	2671.8	11	5108.8	6	-109.3	NM	57.7	-82	NM	4.2	2.7	NM	0.29
Alarco	487.2	6	945.6	2	4.9	-68	11.8	-50	1.0	3.4	2.3	33	0.84
Aluminum Minerals	403.6	-2	802.0	-4	-292.0	NM	-297.0	NM	NM	4.8	-28.8	NM	-7.94
Aluminum Minerals	241.7	228	348.4	81	49.7	432	67.0	113	20.6	12.7	73.7	27	0.76
Aluminum Mining	123.3**	9	248.6	13	-8.0	NM	-11.5	NM	NM	NM	-6.2	NM	-0.41
Aluminum Mining	203.9	25	403.8	21	15.0	54	24.8	34	7.4	6.0	-25.5	NM	-3.67
Aluminum Mining	130.9	18	248.8	11	3.4	130	6.7	182	2.6	1.3	-25.2	NM	-4.10
Aluminum Mining	136.7	-10	274.5	-6	17.2	-41	46.8	-26	12.6	19.3	14.4	45	1.05
Aluminum Mining	158.7	-5	316.5	-1	24.4	11	68.3	15	15.3	13.1	45.2	34	1.51
Aluminum Mining	663.3	10	1253.8	4	67.4	21	121.0	-9	10.2	9.3	13.8	13	3.73
Aluminum Mining	122.5	-16	266.8	-9	8.7	10	19.7	13	7.1	5.4	15.1	8	2.71
ONBANK FINANCIAL													
GROUP COMPOSITE	41238.5	1	77415.7	0	2999.5	14	5721.3	20	7.3	6.4	13.9	12	3.08
FINANCIAL SERVICES													
GROUP COMPOSITE	25705.8	4	46250.3	3	2159.5	16	3909.9	20	8.4	7.6	18.6	12	3.27
Alexander & Alexander Services	347.1	1	668.3	-1	16.9	25	37.7	114	4.9	3.9	2.6	93	0.24
Achuthan Steel	479.2	34	876.7	45	20.3	111	32.9	187	4.2	2.7	5.9	19	6.61
American Express	6888.0**	8	13551.0	7	310.0	21	559.0	8	4.5	4.0	10.7	14	1.65
Bank (H&R) (8)	738.0**	6	994.6	13	165.9	8	171.0	16	22.5	22.2	29.8	23	1.49
Countrywide Credit Industries (10)	135.6**	119	241.4	104	29.0	219	51.0	221	21.4	14.6	13.7	16	1.65
Lawford	141.4	4	284.3	7	9.1	-10	18.3	-2	6.5	7.5	21.7	19	1.04
Lwards (A. G.) (10)	252.6**	15	521.5	30	27.4	16	58.3	43	10.9	10.8	21.1	8	2.42
Luifax	276.4	0	552.6	5	21.4	8	37.1	80	7.8	7.2	19.7	17	0.87
Federal Home Loan Mortgage Assn.	1099.0	6	2170.0	4	165.0	24	306.0	18	15.0	12.9	22.2	13	3.30
Federal National Mortgage Assn.	3641.6**	4	7112.5	4	410.7	-2	798.6	8	11.3	11.9	26.0	12	5.53
First American Financial	280.9**	42	509.3	48	13.4	127	19.7	NM	4.8	3.0	17.9	6	2.89
Marsh & McLennan	733.0**	6	1501.8	5	80.3	-1	182.0	3	11.0	11.7	29.6	18	4.30
Merrill Lynch	3356.3**	10	6770.6	9	227.7	24	505.2	38	6.8	6.0	19.7	7	7.20
Morgan Stanley Group (11)	1942.1**	NA	NA	NA	139.1	NA	NA	NA	7.2	NA	NA	NA	NA
PrineWebber Group	816.8**	3	1691.2	11	45.8	35	120.1	84	5.6	4.3	23.6	5	4.24
Primerica	1275.5**	-20	2581.2	-18	150.5	28	371.3	66	11.8	7.4	17.8	7	5.63
Primerica	2366.0	-6	4307.0	-17	211.0	19	401.0	-11	8.9	7.1	11.5	11	3.36
Primerica (Charles)	219.1**	19	484.1	31	18.5	94	48.2	139	8.4	5.2	34.1	12	1.97
Primerica Marketing Assn.	717.3	-12	1432.2	-15	97.5	15	192.6	16	13.6	10.3	38.6	17	3.89
INSURANCE													
GROUP COMPOSITE	12172.1	1	24366.4	2	576.3	2	1367.0	21	4.7	4.7	10.2	12	3.57
MetLife & Casualty	4264.0	-7	8780.7	-4	-51.0	NM	125.3	-46	NM	2.7	4.8	14	3.04
American National Insurance	320.1	12	637.4	9	32.7	56	72.7	31	10.2	7.3	8.0	8	5.41
Capital Holding	715.8	8	1426.8	10	77.6	20	143.3	19	10.8	9.8	14.8	11	5.56
Primerica	375.3**	11	738.2	20	35.2	39	71.9	55	9.4	7.5	33.3	6	4.77
Primerica Steam Boiler	171.3	11	334.6	8	18.7	-4	36.7	-9	10.9	12.6	17.4	16	3.36
Primerica Mann Educators	175.2	8	352.7	9	15.2	196	34.8	295	8.7	3.1	15.8	11	2.09
Primerica	507.1**	36	894.1	23	40.1	313	62.0	75	7.9	2.6	12.5	26	2.36
Primerica Life & Accident	706.0**	3	1417.0	3	28.0	-18	56.0	-19	4.0	4.9	7.6	11	2.28
Primerica	827.6	7	1661.5	6	42.1	-18	127.2	19	5.1	6.6	12.2	11	4.47
Primerica Paul	1173.0	10	2272.2	8	143.1	38	248.9	32	12.2	9.8	17.9	7	10.71
Primerica	534.9	11	1050.0	9	66.4	8	130.4	8	12.4	12.7	25.1	14	5.03
Primerica	331.4	7	651.4	4	29.8	116	69.2	17	9.0	4.5	7.6	13	2.83
Primerica	644.7	9	1291.7	9	63.3	15	122.6	20	9.8	9.3	15.1	12	3.36

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-24	MOT. EARNINGS RATIO 1 SRE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %					
USF&G	900.0	-15	1841.0	-14	7.0	NM	11.0	NM	0.8	NM	-8.4	NM	-0.8		
USLife	389.8	13	750.8	14	19.7	10	37.3	11	5.1	5.2	8.0	10	5.1		
Zenith National Insurance	136.0	1	266.4	-1	8.2	-25	17.8	-22	6.1	8.1	13.1	9	2.4		
(c) SAVINGS & LOAN GROUP COMPOSITE	3360.6	-17	6799.0	-17	263.8	35	444.4	12	7.8	4.8	6.7	14	1.0		
Ahmanson (H. F.)	929.7**	-22	1896.9	-22	67.1	10	90.1	-23	7.2	5.1	7.7	10	5.1		
CalFed	327.2**	-30	695.7	-29	-23.2	NM	-26.1	NM	NM	NM	-17.7	NM	-5.5		
Coast Savings Financial	159.8**	-35	332.3	-32	6.7	-69	9.6	-61	4.2	8.8	8.9	5	1.0		
Dime Savings Bank of N. Y.	206.6	-16	410.5	-17	8.6	NM	16.6	NM	4.1	NM	-67.6	NM	-8.1		
Golden West Financial	514.2	-8	1044.8	-7	73.9	20	143.9	26	14.4	11.1	17.7	10	2.2		
Great Western Financial	850.9**	-16	1728.3	-16	69.0	-14	119.5	-20	8.1	7.9	11.8	8	1.9		
Metropolitan Financial	169.3	35	283.4	16	38.0	207	44.6	105	22.4	9.9	19.7	4	3.7		
Standard Federal Bank	203.0**	-6	407.2	-7	23.6	53	46.0	60	11.6	7.2	14.7	8	2.5		
18 OFFICE EQUIPMENT & COMPUTERS															
INDUSTRY COMPOSITE	47182.1	11	89952.0	8	330.6	NM	1889.3	212	0.7	NM	2.8	71	0.9		
(a) BUSINESS MACHINES & SERVICES GROUP COMPOSITE	3916.1	19	7758.3	18	188.0	6	372.9	15	4.8	5.4	15.5	18	1.0		
Bell & Howell	157.9	6	310.1	3	-1.6	NM	-3.5	NM	NM	NM	-36.1	NA	-8.7		
CompuCom Systems	174.7	55	333.7	65	1.3	29	2.4	48	0.7	0.9	16.3	9	0.8		
CUC International (11)	174.7**	14	344.7	14	12.5	40	8.8	-49	7.1	5.8	91.4	44	0.2		
Deluxe	363.9	5	749.2	5	47.6	10	96.5	14	13.1	12.5	24.7	19	2.2		
Diebold	134.7	11	256.2	9	8.7	31	15.0	27	6.4	5.4	10.2	18	2.3		
ElectroCom Automation	125.6	66	217.1	56	7.1	59	13.0	74	5.6	5.9	110.1	24	0.8		
HON Industries	163.8	22	322.4	16	8.8	73	15.9	47	5.4	3.8	25.0	17	1.6		
Intelligent Electronics (11)	662.5	57	1353.6	59	6.8	-34	17.4	-15	1.0	2.4	11.7	11	0.4		
MicroAge (3)	254.5	24	487.0	24	1.5	134	2.8	215	0.6	0.3	8.5	9	0.7		
Miller (Herman) (7)	215.1	5	414.0	0	-15.0	NM	-10.8	NM	NM	3.4	-1.2	NM	-0.4		
Pitney Bowes	833.9	4	1645.4	2	77.7	15	148.8	10	9.3	8.4	16.7	17	1.8		
Reynolds & Reynolds (3)	159.8	7	329.4	3	9.7	70	19.7	73	6.1	3.8	13.2	14	3.4		
Standard Register	173.1	0	341.4	-1	9.4	36	18.2	41	5.5	4.0	11.2	13	1.2		
Tech Data (11)	201.8	60	402.1	62	3.9	95	8.0	92	1.9	1.6	14.0	18	0.7		
Wallace Computer Services (5)	120.2	9	252.4	9	9.7	11	20.6	12	8.0	7.9	10.7	14	1.7		
(b) COMPUTERS & PERIPHERALS GROUP COMPOSITE	39200.1	8	74271.0	6	-276.1	NM	765.0	NM	NM	NM	0.1	NM	0.3		
AM International (5)	148.2	-31	308.7	-27	-15.0	NM	-21.6	NM	NM	NM	-16.7	NM	-0.6		
Amdahl	693.0	54	1190.9	33	16.9	167	21.3	20	2.4	1.4	0.6	NM	0.7		
Apple Computer (3)	1740.2	14	3456.2	11	131.7	NM	266.7	242	7.6	NM	24.6	11	2.9		
AST Research (6)	266.3	26	507.8	30	18.6	-8	35.4	-4	7.0	9.6	18.9	6	2.6		
Ceridian	195.7	5	401.9	5	-69.9	NM	-49.0	NM	NM	9.1	-16.9	NM	-1.2		
Compaq Computer	827.0	15	1610.0	-5	29.0	43	74.3	-45	3.5	2.8	3.6	35	0.5		
Conner Peripherals	551.3	36	992.5	26	46.0	72	70.7	14	8.3	6.6	13.7	12	1.2		
Cray Research	185.0	-6	350.1	3	1.3	-94	5.1	-80	0.7	10.2	12.3	7	3.7		
Data General (3)	259.2	-14	533.0	-14	-11.7	NM	-67.0	NM	NM	11.8	-9.9	NM	-1.0		
Dell Computer (11)	366.1	109	651.9	91	19.8	97	35.2	88	5.4	5.8	20.7	13	1.1		
Digital Equipment (6)	3905.8	-1	7158.3	-4	-1855.1	NM	-2200.2	NM	NM	NM	-46.8	NM	-1.8		
Dynatech (9)	121.8	4	244.1	6	1.4	-25	4.6	11	1.1	1.6	8.2	12	1.8		
Everex Systems (5)	140.0	28	273.1	35	2.4	NM	3.6	NM	1.7	NM	-28.0	NM	-1.5		
Hewlett-Packard (2)	4183.0	12	8046.0	13	326.0	40	632.0	44	7.8	6.2	12.2	19	3.5		
Intergraph	288.7	-4	566.0	-4	2.9	-86	5.9	-85	1.0	6.7	4.9	19	0.7		
International Business Machines	16224.0	10	30261.0	7	714.0	467	1309.0	92	4.4	0.9	0.1	NM	0.1		
Maxtor (9)	337.2	15	629.2	22	28.5	23	51.7	NM	8.5	7.9	29.8	16	0.3		
Quantum (9)	368.5	47	714.0	32	21.5	73	38.7	19	5.8	5.0	18.1	11	1.3		
Seagate Technology (6)	780.2	15	1560.1	15	59.3	NM	100.0	289	7.6	0.1	8.0	16	0.2		
Storage Technology	386.4	7	720.1	0	6.6	-65	19.1	-41	1.7	5.2	8.8	19	1.2		
Tandem Computers (3)	503.2	5	1006.1	4	17.4	139	26.2	4	3.5	1.5	-5.6	NM	-0.0		
3Com (7)	121.7	31	224.0	21	4.9	49	-0.5	NM	4.0	3.5	2.1	83	0.5		
Unisys	2088.5**	-5	4098.0	-4	88.4	NM	136.7	NM	4.2	NM	3.4	90	0.1		
Xerox	4519.0**	2	8768.0	1	139.0	10	267.0	10	3.1	2.8	8.6	18	2.4		
(c) COMPUTER SOFTWARE & SERVICES GROUP COMPOSITE	4065.8	31	7922.6	27	418.7	72	751.4	45	10.3	7.8	20.4	29	1.7		
Comdisco (3)	561.0**	9	1095.0	0	17.0	-11	-18.0	NM	3.0	3.7	3.4	29	0.3		
Computer Associates International (9)	367.5	28	837.3	29	19.3	45	77.0	47	5.2	4.6	17.1	13	1.3		
Computer Sciences (9)	605.1	33	1250.0	34	16.1	12	39.8	12	2.7	3.1	11.5	14	4.1		
First Data	293.4	27	575.6	28	31.4	24	61.4	21	10.7	11.0	22.3	21	1.2		
Gtech (10)	120.5	54	224.7	46	12.8	275	16.3	921	10.7	4.4	54.4	NA	1.1		
Lotus Development	220.3	18	447.4	24	14.9	62	35.7	126	6.8	4.9	16.4	13	1.3		
Microsoft (6)	815.4	55	1496.3	48	210.1	52	388.9	48	25.8	26.3	32.3	30	2.1		
Novell (2)	225.0	50	430.0	51	61.3	60	113.5	65	27.3	25.6	27.4	39	1.7		
Oracle Systems (7)	360.2	25	649.8	17	28.8	420	45.5	159	8.0	1.9	14.1	44	0.3		
Safeguard Scientifics	203.9	47	393.6	56	3.0	-2	5.9	-21	1.4	2.2	10.4	7	1.1		
Western Digital (6)	293.5	16	522.9	5	4.1	NM	-14.5	NM	1.4	NM	-64.9	NM	-2.9		

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE- EARNINGS RATIO 7/24	12 MONTHS' EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	21123.0	5	41334.3	5	508.2	-4	927.4	-8	2.4	2.6	3.1	45	0.75
FOREST PRODUCTS													
GROUP COMPOSITE	7578.2	3	14721.5	4	112.3	8	220.8	79	1.5	1.4	-0.9	NM	-0.20
Weyerhaeuser	922.2	-6	1876.1	-5	-45.0	NM	-87.8	NM	NM	NM	-12.7	NM	-3.65
Georgia-Pacific	3046.0	2	5876.0	2	0.0	NM	5.0	-74	0.0	1.0	-3.4	NM	-1.08
Louisiana-Pacific	539.1	11	1014.6	20	44.1	51	80.1	289	8.2	6.0	9.4	21	2.13
Weyerhaeuser	129.8	-1	256.9	-2	-4.3	NM	-4.2	NM	NM	1.4	-7.2	NM	-1.14
Weyerhaeuser	2349.0	2	4544.7	4	92.9	44	179.5	60	4.0	2.8	-1.0	NM	-0.18
Weyerhaeuser	592.1	20	1153.2	21	24.5	112	48.3	184	4.1	2.3	7.6	25	1.48
PAPER													
GROUP COMPOSITE	13544.8	6	26612.8	5	395.9	-7	706.6	-20	2.9	3.3	4.6	29	1.16
Weyerhaeuser	355.9	9	728.8	12	-24.4	NM	-54.1	NM	NM	6.2	-5.4	NM	-1.36
Weyerhaeuser	1229.6	4	2429.8	4	5.1	13	1.5	-92	0.4	0.4	0.1	NM	-0.05
Weyerhaeuser	229.3	5	439.4	5	4.3	79	6.8	39	1.9	1.1	5.5	30	0.81
Weyerhaeuser	221.7	0	439.0	-3	15.1	-38	29.6	-41	6.8	11.1	7.6	24	1.63
Weyerhaeuser	281.6	-4	557.9	-1	-12.5	NM	-29.9	NM	NM	NM	NM	NA	-14.77
Weyerhaeuser	138.9	3	277.6	-2	15.4	-12	30.4	-20	11.1	13.0	15.3	15	1.52
Weyerhaeuser	3400.0	9	6756.0	9	114.0	14	218.0	-4	3.4	3.2	6.1	19	3.35
Weyerhaeuser	1236.6	6	2373.0	1	15.6	-31	4.9	-92	1.3	1.9	0.2	NM	-0.04
Weyerhaeuser	1748.6	4	3488.3	4	138.1	12	274.5	13	7.9	7.3	21.2	16	3.37
Weyerhaeuser	555.3	7	1052.3	7	15.4	603	24.7	72	2.8	0.4	-15.3	NM	-0.32
Weyerhaeuser	1225.4	4	2313.6	2	-34.7	NM	-17.0	NM	NM	1.6	1.8	85	0.45
Weyerhaeuser	328.4	4	662.9	9	34.7	195	50.6	136	10.6	3.7	9.0	14	2.92
Weyerhaeuser	1221.2	7	2421.3	4	46.6	53	91.8	54	3.8	2.7	-1.9	NM	-0.52
Weyerhaeuser	778.8	7	1539.7	6	22.7	-24	7.4	-90	2.9	4.1	3.2	50	0.87
Weyerhaeuser	593.4	6	1133.2	0	40.4	13	67.5	29	6.8	6.4	8.8	16	2.32
PUBLISHING & BROADCASTING													
INDUSTRY COMPOSITE	13089.3	5	25511.8	5	791.9	19	1217.2	28	6.1	5.3	5.5	47	1.09
BROADCASTING													
GROUP COMPOSITE	2944.3	6	5803.1	7	244.1	26	322.6	25	8.3	7.0	7.1	47	1.50
Weyerhaeuser	1391.3	2	2486.7	-5	147.5	15	189.3	2	10.6	9.4	10.2	19	22.59
Weyerhaeuser	780.6	10	1863.2	27	70.1	39	88.7	45	9.0	7.1	-20.9	NM	-4.75
Weyerhaeuser	178.5	6	302.7	6	11.9	451	9.1	NM	6.6	1.3	9.5	63	0.48
Weyerhaeuser	142.8	6	268.9	6	15.8	10	26.2	12	11.1	10.7	NM	20	1.37
Weyerhaeuser	451.1	9	881.6	7	-1.1	NM	9.4	NM	NM	NM	-4.5	NM	-0.27
PUBLISHING													
GROUP COMPOSITE	10145.0	4	19708.7	4	547.7	16	894.5	29	5.4	4.8	5.1	47	1.00
Weyerhaeuser	134.2	20	248.9	21	12.5	92	18.9	313	9.3	5.8	10.5	33	1.36
Weyerhaeuser	160.9	-7	364.9	-7	-29.8	NM	-10.7	NM	NM	3.4	-4.8	NM	-0.32
Weyerhaeuser	467.5	6	903.6	5	43.5	25	71.9	36	9.3	7.8	6.3	36	0.90
Weyerhaeuser	1163.7	0	2272.1	-1	128.8	8	227.0	4	11.1	10.2	24.5	20	2.89
Weyerhaeuser	892.1	2	1685.3	1	98.7	4	154.2	6	11.1	10.9	19.9	21	2.17
Weyerhaeuser	125.7	-1	177.8	0	11.7	-6	-2.3	NM	9.3	9.8	12.5	15	1.81
Weyerhaeuser	590.5	3	1146.0	2	46.1	11	71.1	24	7.8	7.2	12.3	23	2.70
Weyerhaeuser	484.3	6	939.1	6	38.6	11	52.8	11	8.0	7.6	15.3	18	3.14
Weyerhaeuser	147.1	-2	288.8	-2	6.4	24	9.1	21	4.3	3.4	-30.0	NM	-2.33
Weyerhaeuser	448.0	2	888.5	4	15.2	185	29.2	179	3.4	1.2	6.1	33	0.85
Weyerhaeuser	141.8	17	261.4	18	4.6	-25	8.3	-5	3.3	5.0	12.2	29	1.08
Weyerhaeuser	326.5	0	640.1	2	22.6	13	38.3	54	6.9	6.1	11.4	25	1.04
Weyerhaeuser	3096.0	9	6103.0	7	9.0	NM	12.0	NM	0.3	NM	-7.4	NM	-7.02
Weyerhaeuser	911.4	1	1779.3	1	47.2	54	83.8	55	5.2	3.4	5.9	39	0.87
Weyerhaeuser	556.8	3	1028.1	2	44.8	-17	60.2	-20	8.0	9.9	21.6	24	1.71
Weyerhaeuser	376.9	6	706.0	5	45.8	34	65.4	41	12.1	9.5	15.0	19	11.61
Weyerhaeuser	121.5**	23	276.0	23	2.1	NM	5.3	NM	1.8	NM	8.5	22	0.82
SERVICE INDUSTRIES													
INDUSTRY COMPOSITE	18588.8	10	36240.6	10	898.8	46	1507.0	35	4.8	3.7	12.9	23	1.16
INSTRUCTION & ENGINEERING													
GROUP COMPOSITE	4734.2	-2	9279.7	-2	84.1	13	156.5	58	1.8	1.5	12.5	17	1.50
Weyerhaeuser	130.9	-2	273.2	-3	0.3	-88	1.9	-68	0.2	2.0	5.4	20	0.45
Weyerhaeuser	120.9	10	218.6	3	0.1	NM	-3.1	NM	0.1	NM	-27.4	NM	-2.29
Weyerhaeuser	695.8	5	1350.6	4	21.8	12	39.8	11	3.1	2.9	19.9	15	1.53
Weyerhaeuser	1574.6	-7	3171.1	-8	32.4	8	61.2	10	2.1	1.8	14.5	19	2.03
Weyerhaeuser	588.1**	18	1083.7	10	13.5	13	24.8	15	2.3	2.4	8.8	19	1.31
Weyerhaeuser	283.4	7	553.5	2	6.3	20	14.4	40	2.2	2.0	20.7	22	1.07
Weyerhaeuser	826.6	-15	1616.7	-9	3.3	NM	4.6	NM	0.4	NM	12.4	10	1.88
Weyerhaeuser	514.0**	8	1012.3	9	6.5	-30	12.9	-29	1.3	2.0	7.7	20	1.04

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE- EARNINGS RATIO 7-24	MO EARN- ING 1 SH
	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
(b) INDUSTRIAL DISTRIBUTION													
GROUP COMPOSITE	4241.8	13	8402.7	13	170.1	36	325.3	27	4.0	3.3	13.7	21	1
Anthem Electronics	122.3	20	248.5	23	7.1	27	14.6	31	5.8	5.5	15.9	16	2
Arrow Electronics	382.0	64	760.7	62	11.5	273	20.8	246	3.0	1.3	7.5	33	0
Fisher Scientific International	201.8	9	397.6	11	6.5	27	11.4	44	3.2	2.7	8.6	35	0
Genuine Parts	926.6	5	1799.9	6	54.8	6	101.6	7	5.9	5.9	18.7	16	1
Getty Petroleum (11)	238.1	-11	521.1	-17	-2.8	NM	0.4	NM	NM	NM	-6.9	NM	-0
Grainger (W. W.)	606.3	12	1138.6	12	36.0	9	64.3	5	5.9	6.1	15.0	19	2
Kaman	188.3**	-3	393.8	1	4.8	5	8.7	3	2.5	2.3	8.5	11	0
Marshall Industries (7)	156.2	6	298.8	4	6.3	44	11.2	38	4.1	3.0	11.2	15	2
Office Depot	386.8	28	820.1	31	6.5	NM	15.8	NM	1.7	NM	9.0	53	0
Premier Industrial (7)	167.8	2	324.1	3	22.5	15	41.0	16	13.4	12.0	24.0	24	1
Staples (11)	181.8	73	368.0	87	1.3	662	7.2	NM	0.7	0.2	6.2	61	0
TBC	154.0	14	275.8	16	6.1	33	10.3	29	3.9	3.4	21.1	17	0
United Stationers (4)	255.3	8	515.7	7	3.6	68	7.1	58	1.4	0.9	6.8	15	0
Willcox & Gibbs	151.6	3	295.6	1	2.7	100	5.0	78	1.8	0.9	3.5	36	0
Wyle Laboratories (11)	122.7	7	244.3	7	3.2	-8	6.0	-11	2.6	3.1	7.9	16	0
(c) POLLUTION CONTROL													
GROUP COMPOSITE	3779.3	13	7303.7	12	431.1	76	695.6	41	11.4	7.3	13.4	28	0
Air & Water Technologies (2)	173.1	7	327.4	2	-0.3	NM	-0.2	NM	NM	NM	0.1	NM	0
Browning-Ferris Industries (3)	836.4	4	1618.4	3	46.5	-21	85.1	-27	5.6	7.3	1.2	NM	0
Chemical Waste Management	397.3	16	770.6	19	52.4	67	82.3	49	13.2	9.1	13.4	27	0
ICF International (10)	197.3	29	392.0	19	3.0	NM	6.8	NM	1.5	NM	-24.5	NM	-0
Waste Management	2175.2	16	4195.3	16	329.5	59	521.6	40	15.2	11.0	17.8	23	1
(d) PRINTING & ADVERTISING													
GROUP COMPOSITE	2200.9	13	4183.8	11	135.6	21	197.5	18	6.2	5.8	14.7	19	2
Advo-System (3)	209.3	12	391.9	12	7.7	11	8.3	-3	3.7	3.7	22.4	21	1
Banta	151.8	12	304.3	11	8.6	22	15.9	30	5.7	5.2	13.6	14	2
Donnelley (R. R.) & Sons	1006.9	9	1945.0	8	53.7	24	89.2	21	5.3	4.7	12.7	20	2
Interpublic Group	485.3**	21	886.1	18	43.2	19	52.9	20	8.9	9.1	18.3	20	1
Omnicom Group	347.6	15	656.4	12	22.4	20	31.3	7	6.4	6.2	18.1	16	2
(e) OTHER SERVICES													
GROUP COMPOSITE	3632.7	23	7070.6	20	77.9	31	132.0	38	2.1	2.0	9.0	29	0
Adia Services	177.6**	11	342.3	9	3.0	55	4.1	25	1.7	1.2	4.8	21	0
American Building Maintenance (2)	191.4	6	374.0	4	2.8	13	5.0	14	1.5	1.4	12.4	24	1
CDI	214.3	16	418.5	10	0.8	NM	1.5	NM	0.4	NM	-1.8	NM	-0
Handleman (8)	268.3	91	574.6	70	9.9	284	21.9	222	3.7	1.8	15.7	11	1
InaCom	253.2	108	497.7	111	2.4	186	4.1	99	0.9	0.7	5.9	18	0
Kelly Services	415.7	20	793.1	17	8.5	-12	14.7	-19	2.0	2.8	9.9	24	1
Manpower	769.7	14	1460.5	8	-10.0	NM	-28.2	NM	NM	NM	-23.5	NM	-0
Mid Atlantic Medical Services	142.4	50	277.8	53	1.6	63	5.1	33	1.1	1.0	38.4	15	0
Olsten	235.3**	13	454.2	12	4.8	39	8.4	40	2.1	1.7	14.7	26	1
Pinkerton's	162.5	14	321.9	14	1.3	-53	2.5	-41	0.8	1.9	9.7	11	1
Rollins	150.2	11	267.7	11	16.4	20	21.5	22	10.9	10.0	29.4	19	1
Safety-Kleen	184.1	16	358.0	15	14.5	11	26.6	9	7.9	8.2	11.2	31	0
Service Corp. International	187.1	20	387.8	25	19.9	22	45.0	29	10.6	10.4	13.0	15	1
Volt Information Sciences (2)	128.2	12	240.4	8	0.1	-97	-3.8	NM	0.1	3.4	-4.7	NM	-0
Wackenhut	152.7	9	302.3	6	1.9	1	3.6	5	1.3	1.4	18.0	14	2
22 TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	48965.7	3	96484.3	3	4099.7	12	8056.5	18	8.4	7.7	10.8	22	1
(a) EQUIPMENT & SERVICES													
GROUP COMPOSITE	21729.0	3	42722.6	2	1130.0	13	2123.9	19	5.2	4.7	5.1	66	0
American Telephone & Telegraph	15845.0	1	31220.0	1	961.0	4	1844.0	9	6.1	5.9	4.1	91	0
Communications Satellite	133.2	4	261.1	3	16.9	-11	32.4	-12	12.7	14.8	11.1	12	3
DSC Communications	128.5	10	231.2	-8	2.0	NM	-8.4	NM	1.6	NM	-57.8	NM	-2
LIN Broadcasting †	142.9	19	266.8	21	-19.2	NM	-56.4	NM	NM	NM	NM	NM	-2
McCaw Cellular Communications	426.4	25	801.1	26	-85.6	NM	-204.4	NM	NM	NM	-15.5	NM	-1
MCI Communications	2606.0	11	5119.0	10	149.0	9	290.0	9	5.7	5.8	17.2	16	2
Pacific Telecom	169.7	-6	335.9	-7	11.9	-34	33.0	-9	7.0	10.0	14.2	11	2
Sprint	2277.3	3	4487.3	3	94.0	6	193.9	12	4.1	4.0	14.8	13	1
(b) TELEPHONE COMPANIES													
GROUP COMPOSITE	27236.7	3	53761.8	3	2969.7	12	5932.6	18	10.9	10.0	12.5	17	2
Alltel	512.5	10	1010.9	12	56.4	18	105.2	9	11.0	10.3	16.6	17	2
Ameritech	2805.9	2	5496.7	2	343.0	13	680.0	16	12.2	11.1	15.2	14	4
Bell Atlantic	3149.0	1	6225.8	1	314.9	-3	661.8	2	10.0	10.4	16.3	15	3
BellSouth	3816.8	7	7555.5	6	458.5	26	919.4	20	12.0	10.2	12.2	15	3
Centel	292.7	-2	587.0	0	54.8	3	64.2	11	18.7	17.7	10.1	21	1
Cincinnati Bell	275.4	7	573.3	8	11.4	NM	25.9	239	4.1	NM	9.6	18	0
GTE	5063.0	4	9886.0	4	446.0	13	873.0	48	8.8	8.1	16.2	17	2
Nynex	3284.1	-2	6522.0	-3	331.1	14	667.3	19	10.1	8.7	7.6	23	3
Pacific Telesis Group	2498.0	-1	4972.0	1	282.0	-11	613.0	5	11.3	12.5	13.0	16	2
Rochester Telephone	195.8	19	387.5	19	15.8	-43	31.0	-24	8.1	17.0	11.0	16	1

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-24	MONTHLY EARNINGS PER SHARE
	2ND QUARTER 1992 \$ MIL.	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL.	CHANGE FROM 1991 %	2ND QUARTER 1992 \$ MIL.	CHANGE FROM 1991 %	6 MONTHS 1992 \$ MIL.	CHANGE FROM 1991 %	2ND QUARTER 1992 %	2ND QUARTER 1991 %			
Southern New England Telecomms.	411.5**	0	816.2	1	41.7	150	81.8	51	10.1	4.1	12.8	13	2
Southwestern Bell	2388.6	7	4675.7	7	304.5	20	566.1	19	12.7	11.3	14.0	16	4
US West	2543.3	2	5053.1	2	309.5	12	643.9	14	12.2	11.1	6.5	25	1
23 TRANSPORTATION													
INDUSTRY COMPOSITE	29115.9	5	57532.9	7	-76.6	NM	109.3	NM	NM	1.2	-3.1	NM	-0.
(a) AIRLINES													
GROUP COMPOSITE	11947.3	9	23524.2	14	-520.5	NM	-809.6	NM	NM	0.4	-14.4	NM	-4.
Alaska Air Group	277.1	0	535.4	2	-17.8	NM	-33.5	NM	NM	1.6	-9.7	NM	-1
AMR	3587.0	12	7094.0	19	-166.0	NM	-146.0	NM	NM	0.3	-4.7	NM	-2
Delta Air Lines (6)	2826.0	12	5640.6	17	-180.2	NM	-331.8	NM	NM	0.8	-31.6	NM	-10
Southwest Airlines	416.8	28	790.7	30	23.5	122	37.0	NM	5.6	3.3	7.9	31	0
UAL	3140.4	6	6112.4	11	-95.1	NM	-187.4	NM	NM	1.8	-26.4	NM	-17
USAir Group	1699.9	2	3351.2	3	-84.9	NM	-147.9	NM	NM	NM	-27.1	NM	-6
(b) RAILROADS													
GROUP COMPOSITE	8205.3	3	16290.7	3	215.0	110	749.8	69	2.6	1.2	-0.7	NM	-0.
Burlington Northern	1091.0	1	2276.0	3	36.0	NM	116.0	NM	3.3	NM	18.5	13	2
Chicago & North Western	240.0	0	482.5	-1	11.6	314	16.6	233	4.8	1.2	NM	NM	-4
Consolidated Rail	843.0	4	1641.0	5	77.0	5	115.0	26	9.1	9.0	-7.8	NM	-4
CSX	2189.0	3	4275.0	3	-322.0	NM	-260.0	NM	NM	5.4	-17.7	NM	-5
Illinois Central	129.9	-1	268.6	0	16.9	23	38.0	31	13.0	10.4	24.7	11	1
Kansas City Southern Industries	177.8**	19	352.9	21	15.8	56	30.4	54	8.9	6.7	13.3	14	2
Norfolk Southern	1147.0**	3	2245.2	3	145.0	8	283.7	21	12.6	12.0	1.9	90	0
Santa Fe Pacific	605.6	6	1222.5	8	28.7	67	59.1	71	4.7	3.0	11.0	18	0
Union Pacific	1782.0	2	3527.0	1	206.0	35	351.0	23	11.6	8.8	3.0	82	0
(c) TRANSPORTATION SERVICES													
GROUP COMPOSITE	4409.5	1	8666.6	1	91.2	12	-65.5	NM	2.1	1.9	1.5	93	0.
Airborne Freight	359.9	6	719.8	9	-3.5	NM	-2.4	NM	NM	3.0	3.5	26	0
Federal Express (7)	1891.3	-1	3780.9	-1	35.8	16	-157.5	NM	1.9	1.6	-7.4	NM	-2
PHH (8)	493.9	-9	976.0	-5	14.9	18	28.2	15	3.0	2.3	12.1	12	2
Ryder System	1327.2	3	2565.7	3	37.6	74	55.0	183	2.8	1.7	7.0	20	1
Trinity Industries (9)	337.2	12	624.2	4	6.4	8	11.3	10	1.9	2.0	6.5	29	1
(d) TRUCKING & SHIPPING													
GROUP COMPOSITE	4553.8	4	9051.4	5	137.7	29	234.6	62	3.0	2.4	7.8	15	1.
Alexander & Baldwin	183.0**	-4	353.1	0	22.2	-11	38.6	1	12.1	13.1	12.5	11	2
American President	583.9**	6	1244.3	6	26.2	124	44.0	113	4.5	2.1	19.3	8	5
Arkansas Best	241.7	10	470.8	10	4.3	173	8.1	NM	1.8	0.7	11.3	8	1
Carolina Freight	183.9	4	356.0	4	0.3	-85	-0.3	NM	0.2	1.1	0.4	NM	0
Consolidated Freightways	1002.8	-1	1993.4	-3	10.7	NM	10.9	NM	1.1	NM	-3.9	NM	-0
GATX	259.3**	7	491.2	8	16.5	-20	32.3	-18	6.4	8.5	10.9	8	3
Greyhound Lines	165.3	-9	318.4	-8	0.3	-54	-9.4	NM	0.2	0.3	NM	NA	0
Hunt (J. B.) Transport Services	223.8	27	425.1	25	9.8	31	16.1	37	4.4	4.3	15.3	22	0
Preston	142.6	-1	282.0	1	-2.4	NM	-2.1	NM	NM	1.3	-8.0	NM	-1
Roadway Services	803.5	13	1606.2	16	32.4	26	63.1	42	4.0	3.6	15.4	15	3
TNT Freightways	197.8	17	378.8	17	7.6	18	10.3	35	3.8	3.8	7.7	19	1
Yellow Freight System	566.2	-6	1132.2	-2	10.0	-12	23.0	37	1.8	1.9	7.0	22	1
24 UTILITIES & POWER													
INDUSTRY COMPOSITE	40919.0	1	85319.5	1	3441.4	-5	7693.1	-1	8.4	9.0	9.7	16	1.
(a) ELECTRIC, WATER & COGENERATION													
GROUP COMPOSITE	34465.2	1	70850.0	2	3330.4	-5	7066.0	-2	9.7	10.3	9.7	16	1.
Allegheny Power System	555.8	1	1178.4	3	47.1	3	119.1	8	8.5	8.4	11.8	12	3
American Electric Power	1174.0	-5	2471.2	-1	87.8	-23	231.5	-15	7.5	9.3	10.7	14	2
Atlantic Energy	187.4	2	385.2	7	15.4	2	47.8	79	8.2	8.2	13.7	11	2
Baltimore Gas & Electric	543.2	4	1214.5	5	38.0	-36	97.3	-3	7.0	10.4	8.1	16	1
Boston Edison	300.6	2	644.1	5	5.0	7	18.8	43	1.6	1.6	10.6	13	2
Carolina Power & Light	621.2	-2	1279.5	1	69.1	-8	163.4	-1	11.1	11.8	14.5	11	4
Centerior Energy	581.2	-10	1173.0	-6	36.5	-45	75.3	-36	6.3	10.3	6.9	12	1
Central & South West	763.0	6	1448.0	6	79.0	-16	142.0	-10	10.4	13.1	12.8	15	1
Central Maine Power	203.8	0	450.4	4	15.1	-3	36.6	15	7.4	7.7	11.6	12	1
Cincinnati Gas & Electric	334.4	2	780.9	1	44.1	18	111.1	-9	13.2	11.4	10.5	12	3
Cipco	168.3	1	353.8	1	17.8	6	31.2	11	10.6	10.1	12.4	13	2
Commonwealth Edison	1431.7	-6	2854.3	0	105.8	-33	173.1	7	7.4	10.4	0.6	NM	0
Commonwealth Energy System	194.4	-5	452.3	-2	0.9	154	21.3	16	0.5	0.2	6.7	19	2
Delmarva Power & Light	192.4	-5	414.7	0	14.3	-17	49.0	25	7.4	8.4	11.4	15	1
Detroit Edison	864.9	-2	1760.7	1	125.8	-7	281.9	5	14.5	15.3	18.8	9	3
Dominion Resources	874.6**	-3	1818.9	1	72.9	-29	179.1	-19	8.3	11.3	10.7	15	2
DPL	228.6	1	521.5	1	33.0	51	86.6	3	14.4	9.7	11.1	15	1
DQE	290.0	0	588.1	2	33.0	3	69.3	2	11.4	11.1	12.4	12	2
Duke Power	899.3	0	1880.6	5	86.9	-37	193.3	-30	9.7	15.4	11.0	16	2
Florida Progress	511.7	3	975.2	-1	39.1	-17	73.4	-13	7.6	9.0	10.3	16	1
FPL Group	1262.0	-9	2355.4	-8	113.9	34	198.7	19	9.0	6.1	12.0	15	2
General Public Utilities	811.4	0	1703.8	4	51.3	-30	133.4	-12	6.3	9.1	8.4	15	1
Hawaiian Electric Industries	264.3	1	523.7	-4	17.4	17	33.1	13	6.6	5.7	10.0	17	2
IES Industries	148.4	1	329.7	4	8.8	17	19.4	11	6.0	5.2	9.9	15	1

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE- EARNINGS RATIO 7-24	MO- EARN- P SH
	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 \$ MIL	CHANGE FROM 1991 %	9 MONTHS 1992 \$ MIL	CHANGE FROM 1991 %	3RD QUARTER 1992 %	3RD QUARTER 1991 %			
Illinois Power	335.5	2	719.1	2	20.6	7	35.5	26	6.1	5.9	6.0	21	1
Ipalco Enterprises	150.4	-	310.4	-2	14.3	-38	42.3	-15	9.5	14.9	12.1	14	2
LG&E Energy	189.4	-	394.3	11	18.7	-2	34.3	-22	9.9	11.9	11.1	14	2
Long Island Lighting	580.5	7	1278.3	6	59.3	18	126.0	-8	10.2	9.2	10.7	12	2
Midwest Resources	223.2	-6	499.7	0	4.7	-63	21.8	-36	2.1	5.3	8.2	16	1
Montana Power	200.5**	1	470.9	2	5.1	-52	46.7	-12	2.5	5.3	11.1	14	1
New England Electric System	499.3	5	1074.0	2	32.9	50	100.1	2	6.6	4.6	12.3	13	2
New York State Electric & Gas	401.9	8	891.8	9	46.8	9	123.2	6	11.6	11.5	9.8	13	2
Niagara Mohawk Power	881.4	9	1915.4	6	71.7	24	174.2	4	8.1	7.1	9.7	13	1
Northeast Utilities	718.7	13	1481.5	11	76.7	25	161.9	15	10.7	9.6	13.5	12	2
Northern States Power	500.2	0	1064.0	-1	31.1	26	75.4	-6	6.2	4.9	11.4	15	2
Ohio Edison	565.7	0	1153.4	-1	61.6	-10	136.6	-5	10.9	12.1	9.9	14	1
Oklahoma Gas & Electric	306.3	-7	567.6	-6	17.0	-49	13.0	-72	5.6	10.2	11.2	14	2
Orange & Rockland Utilities	183.9	16	424.0	17	7.1	-2	19.1	-6	3.8	4.6	11.3	13	3
Pacific Gas & Electric	2519.7	7	4939.5	7	336.4	10	612.8	38	13.4	13.0	14.2	13	2
Pennsylvania Power & Light	645.1	-2	1401.9	2	69.8	-4	182.8	0	10.8	11.1	13.1	14	2
Philadelphia Electric	903.2	-6	1983.1	1	94.3	-25	182.7	-32	10.4	13.0	9.8	15	1
Pinnacle West Capital	412.9	14	760.2	9	46.8	108	62.9	75	11.3	6.2	-23.5	NM	-3
Portland General	197.1	-1	434.8	0	14.7	77	44.4	3	7.5	4.2	-2.8	NM	-0
Potomac Electric Power	360.4	-4	691.6	1	33.6	-21	43.1	-13	9.3	11.4	11.2	16	1
PSI Resources	258.0	-7	530.9	-6	20.2	-29	47.4	-26	7.8	10.2	0.5	NM	0
Public Service Co. of Colorado	422.5	8	949.4	1	28.9	137	75.2	31	6.9	3.1	14.5	10	2
Public Service Co. of New Mexico	189.5	-2	426.2	-4	5.1	NM	21.3	83	2.7	NM	3.2	22	0
Public Service Enterprise Group	1191.6	4	2705.7	5	94.6	-27	288.2	-4	7.9	11.3	11.3	12	2
Puget Sound Power & Light	240.6	11	520.8	6	29.5	19	77.6	-5	12.3	11.4	12.3	12	2
Rochester Gas & Electric	195.2	7	452.9	6	-4.6	NM	23.8	-8	NM	0.8	7.9	16	1
San Diego Gas & Electric	436.6	7	907.9	6	41.5	-23	95.9	-10	9.5	13.2	13.5	15	1
Scana	255.3	0	552.8	0	18.4	-29	54.1	-18	7.2	10.2	11.9	14	3
SCEcorp	1765.5	4	3479.9	3	167.8	-6	335.6	-7	9.5	10.5	11.9	15	3
Southern	2011.0	0	3818.9	0	250.0	26	461.7	28	12.4	9.8	14.0	12	3
Southern Public Service (4)	175.6	2	348.6	3	21.7	-10	42.3	-12	12.4	14.0	14.4	14	2
(b) GAS, OIL & TRANSMISSION													
GROUP COMPOSITE	6453.8	6	14469.4	-1	111.1	17	627.1	4	1.7	1.6	9.1	18	1
Brooklyn Union Gas (3)	182.6	11	615.9	9	-5.1	NM	53.3	-3	NM	NM	8.9	15	2
Eastern Enterprises	250.3	10	606.8	9	7.7	278	38.6	30	3.1	0.9	7.2	16	1
El Paso Natural Gas	188.4	7	362.8	-6	17.3	-9	45.7	-4	9.2	10.9	12.9	NA	2
Enron	3216.8	6	6557.0	-1	51.4	37	167.1	14	1.6	1.2	13.3	20	2
Enserch	585.0	-4	1362.2	-4	-13.3	NM	21.0	-26	NM	NM	0.3	NM	-0
Nicor	259.0	11	837.8	-4	17.5	13	57.4	-8	6.8	6.7	14.6	12	3
Oneok (4)	150.5	3	415.1	-3	2.6	-28	25.9	-18	1.7	2.5	8.4	14	1
Panhandle Eastern	484.7	1	1165.8	-12	11.6	NM	72.2	86	2.4	NM	8.6	15	1
Piedmont Natural Gas (2)	150.9	6	323.8	9	20.0	31	44.4	37	13.2	10.8	11.5	14	2
Sonat	295.6	8	715.6	-6	-4.2	NM	38.8	-31	NM	4.1	5.7	28	1
Wicor	143.6	11	376.9	0	-0.5	NM	16.9	-8	NM	NM	8.0	18	1
Williams	546.4	22	1129.6	7	6.2	-56	45.7	-20	1.1	3.1	7.2	15	2

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A	Amerada Hess 11b	Arkansas Best 23d	Bard (C.R.) 12d	Borden 10b	Carter Hawley Hale 8	CML Group 8	Constar International
A&P 10c	American Brands 6e	Arco 16b	Barnes Group 15a	Boston Edison 24a	Carter-Wallace 12b	Coast Savings 17c	Continental Bank
Abbott Laboratories 12d	American Building 21e	Armco 16b	Barnett Banks 3c	Bowater 19b	Casey's General 10c	Coastal 11b	Cooper Industries
Adia Services 21e	American Cyanamid 4	Arrow Electronics 21b	Baroid 11c	Brinker Intl 14a	Caterpillar 15c	Coca-Cola 6c	Cooper Tire & Rubber
Advanced Micro 9d	American Electric 24a	Arvin Industries 2b	Bausch & Lomb 12d	Bristol-Myers Squibb 12b	CBS 20a	Coca-Cola Bottling 6c	Coors (Adolph) 4
Advo-System 21d	American Express 17a	Asarco 16c	Baxter International 12d	Brooklyn Union Gas 24b	CDI 21e	Coca-Cola Enterprises 6c	CoreStates Financial
Aetna Life & Casualty 17b	American Greetings 14d	Ashland Coal 11a	Beckman Instruments 9c	Brown Group 6a	Centel 22b	Coleman 9a	Corning 15a
Ahmanson (H.F.) 17c	American Home 12b	Ashland Oil 11b	Becton, Dickinson 12d	Brown-Forman 6c	Centenier Energy 24a	Colgate-Palmolive 15d	Costco Wholesale
Air & Water Techs 21c	American Maize 10b	AST Research 18b	Bell & Howell 18a	Browning-Ferris 21c	Centex 13b	Collins & Aikman 6d	Countrywide Credit
Air Products & Chemicals 4	American Medical 12c	AT&T 22a	Bell Atlantic 22b	Brunswick 14d	Central & South West 24a	Coltec Industries 5	CPC International
Airborne Freight 23c	American National 17b	Atlantic Energy 24a	BellSouth 22b	Burlington Inds. 15d	Central Maine Power 24a	Comdisco 18c	Crane 15a
Alaska Air Group 23a	American President 23d	Atlantic Richfield 11b	Belo (A.H.) 20b	Burlington Northern 23b	Ceridian 18b	Comerica 3b	Crawford 17a
Albany International 15d	American Stores 10c	AutoZone 8	Bemis 7b	Burlington Resources 11b	Champion Intl 19b	Commerce Clearing 20b	Cray Research 11
Alberto-Culver 6d	Amentech 22b	Avery Dennison 15a	Bergens Brunswick 12a	Butler Mfg. 21a	Charming Shoppes 8	Commercial Metals 16b	Crestar Financial
Albertson's 10c	Ames Dept. Stores 8	Avon Products 6d	Best Buy 6b		Chose Manhattan 3a	Commonwealth Ed. 24a	Crompton & Knott
Alco Standard 5	Ametek 9c	Azlar 14c	Bethlehem Steel 16b		Chemical Banking 3a	Commonwealth Energy 24a	Crown Cork & Seal
Alcoa 16a	Amgen 12b		Betz Laboratories 4		Chemical Waste 21c	Commtron 14b	CSX 23b
Alexander & Alexander 17a	Amoco 11b		Beverly Enterprises 12c		Chesapeake 19b	Compaq Computer 18b	CUC International
Alexander & Baldwin 23d	AMP 9d		Big 12a		Chevron 11b	Computer Com Systems 18a	Culbro 6c
Allegheny 17a	AMR 23a		Bindley Western Inds. 12a		Chicago & North Western 23b	Computer Associates 18c	Cummins Engine
Allegheny Ludlum 16b	Amsco International 12d		Black & Decker 15b		Chrysler 2a	Consolidated Papers 19b	Cyprus Minerals
Allegheny Power 24a	Analog Devices 9d		Blair 8		Church & Dwight 6d	Consolidated Rail 23b	
Allergan 12b	Anheuser-Busch 6c		Block (H&R) 17a		Cincinnati Bell 22b	Consolidated Stores 8	
Alliant Techsystems 15a	Anthem Electronics 21b		Block Drug 6d		Cincinnati G&E 24a		
Allied-Signal 5	Apache 11b		Blockbuster Ent. 14b		Cincinnati Milacron 15b		
Alltel 12b	Apogee Enterprises 21a		Blount 15a		Ciprico 24a		
AM International 18b	Apple Computer 18b		Boatmen's Bancshares 3b		Circuit City Stores 6b		
Amaz 16a	Applied Materials 15c		Bob Evans Farms 14a		Circus Circus 14c		
Amahl 18b	Arbor Drugs 12a		Boeing 1		Citicorp 3a		
	Arco Chemical 4		Boise Cascade 19a		Clark Equipment 15b		

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29. Yellow Freight System, Inc.

AREA DEVELOPMENT

30. Alabama Economic Development Partnership
31. Iowa Department of Economic Development
32. Piedmont Municipal Power Agency

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

Continued from p. 80

Deere **15c**
 Delchamps **10c**
 Dell Computer **18b**
 Delmarva Power **24a**
 Delta Air Lines **23a**
 Deluxe **18a**
 Detroit Edison **24a**
 Dexter **4**
 Dial **5**
 Diamond Shamrock **11b**
 Diebold **18a**
 Digital Equipment **18b**
 Dillard **8**
 Dime Savings Bank **17c**
 Disney (Walt) **14b**
 Dole Food **10b**
 Dollar General **8**
 Dominion Bankshares **3c**
 Dominion Resources **24a**
 Donaldson **2b**
 Donnelley (R.R.) **21d**
 Doskol **10b**
 Dover **15c**
 Dow Chemical **4**
 Dow Jones **20b**
 DPL **24a**
 DQE **24a**
 Dresser Industries **11c**
 Drug Emporium **12a**
 DSC Communications **22a**
 Du Pont **4**
 Duke Power **24a**
 Dun & Bradstreet **20b**
 Duracell International **15a**
 Durr-Fillauer Medical **12a**
 DWG **15d**
 Dynatech **18b**

E
 ESystems **9b**
 Eagle Food Centers **10c**
 Eagle-Picher Industries **2b**
 Eastern Enterprises **24b**
 Eastman Kodak **14d**
 Eaton **2b**
 Echlin **2b**
 Eckerd (Jack) **12a**
 Ecobal **6d**
 Edison Brothers **8**
 Edwards (A.G.) **17a**
 EG&G **21a**
 El Paso Natural Gas **24b**
 ElectroCom Automation **18a**
 Engellhard **4**
 Enron **24b**
 Enserch **24b**
 Equifax **17a**
 Ethyl **4**
 Everex Systems **18b**
 Exxon **11b**

F
 Fabri-Centers **8**
 Family Dollar Stores **8**
 Fay's **12a**
 Federal Express **23c**
 Federal Home Loan **17a**
 Federal Nat'l Mtg **17a**
 Federal Paper Board **7b**
 Federal Signal **15a**
 Federal-Mogul **2b**
 Federated Dept. Stores **8**
 Ferro **4**
 Fieldcrest Cannon **15d**
 Figgie International **5**
 Fingerhut **8**
 First American Finl **17a**
 First Bank System **3b**
 First Chicago **3b**
 First Data **18c**
 First Fidelity **3a**
 First Interstate Bancorp **3d**
 First Mississippi **4**
 First Union **1c**
 First of America Bank **3b**
 Firstar **3b**
 Fisher Scientific **21b**

Fisher-Price **14d**
 Fleet Financial Grp. **3a**
 Fleetwood Ent's **14d**
 Fleming **10a**
 Florida Progress **24a**
 Fluor **21a**
 FMC **15c**
 Food Lion **10c**
 Foodarama **10c**
 Ford Motor **2a**
 Fort Howard **19b**
 Foster Wheeler **21a**
 Foundation Health **12c**
 FaxMeyer **12a**
 FPL Group **24a**
 Freeport-McMoran **4**
 Freeport-McMoran C&G **16c**
 Fruit of the Loom **6a**
 Fuller (H.B.) **4**
 Fuqua Industries **5**

G
 Gannett **20b**
 Gap **8**
 GATX **23d**
 Gaylord Ent. **20a**
 GenCorp **1**
 Genentech **12b**
 General Cinema **5**
 General Dynamics **1**
 General Electric **5**
 General Host **5**
 General Mills **10b**
 General Public Uts **24a**
 General Signal **15c**
 Genovese Drug **12a**
 Genuine Parts **21b**
 Georgia Gulf **4**
 Georgia-Pacific **19a**
 Gerber Products **10b**
 Getty Petroleum **21b**
 Giant Food **10c**
 Giddings & Lewis **15b**
 Gillette **6d**
 Glaxo (P.H.) **19b**
 Glendon **2b**
 Eclinch **2b**
 Eckerd (Jack) **12a**
 Ecobal **6d**
 Edison Brothers **8**
 Edwards (A.G.) **17a**
 EG&G **21a**
 El Paso Natural Gas **24b**
 ElectroCom Automation **18a**
 Engellhard **4**
 Enron **24b**
 Enserch **24b**
 Equifax **17a**
 Ethyl **4**
 Everex Systems **18b**
 Exxon **11b**

H
 Halliburton **11c**
 Handelman **21e**
 Hanna (M.A.) **4**
 Hannaford Brothers **10c**
 Harley-Davidson **14d**
 Harmschfeger **15c**
 Harco **15a**
 Hartford Steam **17b**
 Hartmarx **6a**
 Hasbro **14d**
 Hawaiian Electric **24a**
 HCA **12c**
 Health Care & Retirement **12c**
 Healthtrust **12c**
 Hechinger **8**
 Heilig-Meyers **6b**
 Heinz (H.J.) **10b**
 Helene Curtis Industries **6d**
 Hercules **4**
 Hershey Foods **10b**
 Hewlett-Packard **18b**
 Hillenbrand **15a**
 Hillhaven **12c**
 Hills Department Stores **8**
 Hilton Hotels **14c**

Holly **11b**
 Home Depot **8**
 Home Shopping **8**
 Homestake Mining **16c**
 HON Industries **18a**
 Honeywell **9c**
 Hook-Superrx **12a**
 Horace Mann **17b**
 Hormel (Geo. A.) **10b**
 Houghton Mifflin **20b**
 House of Fabrics **8**
 Hubbell **9a**
 Hudson Foods **10b**
 Huff **14d**
 Hughes Supply **13a**
 Humana **12c**
 Hunt (J.B.) **23d**
 Huntington Bancshares **3b**

I
 IBM **18b**
 IBP **10b**
 ICF International **21c**
 IES Industries **24a**
 Illinois Central **23b**
 Illinois Power **24a**
 Illinois Tool Works **15a**
 IMC Fertilizer **4**
 Imco Industries **9c**
 InaCom **21e**
 Ingersoll-Rand **15c**
 Inland Steel **16b**
 Intel **9d**
 Intelligent Electronics **18a**
 Interface **15d**
 Intergraph **18b**
 Interlake **15c**
 International Flavors **4**
 Intl. Multifoods **10b**
 International Paper **19b**
 Intl. Specialty Prods. **4**
 Interpublic Group **21d**
 Interstate Bakeries **10b**
 Ipalco Enterprises **24a**
 ITT **5**

J
 Jacobs Engineering **21a**
 James River **19b**
 Jamesway **8**
 Johnson & Johnson **12d**
 Johnson Controls **9c**
 Jostens **15a**
 Joy Technologies **15c**

K
 Kaiser Aluminum **16a**
 Kaman **21b**
 Kansas City Southern **23b**
 Karcher (Carl) **14a**
 Kaufman & Broad **13b**
 Kellogg **10b**
 Kellwood **6a**
 Kelly Services **21e**
 Kennametal **15b**
 Kern-McGee **11b**
 KeyCorp **3a**
 Keystone Intl **15a**
 Kimberly-Clark **19b**
 Kmart **8**
 Knight-Ridder **20b**
 Kohl's **8**
 Kroger **10c**

L
 La-Z-Boy Chair **6b**
 Ladd Furniture **6b**
 Lafarge **13a**
 Lands' End **8**
 Leggett & Platt **6b**
 Leslie Fay **6a**
 LG&E Energy **24a**
 Lilly (Eli) **12b**
 Limited **8**
 LIN Broadcasting **22a**
 Litton Industries **9b**
 Liz Claiborne **6a**
 Lockheed **1**
 Lucite **4**

Long Island Lighting **24a**
 Longs Drug Stores **12a**
 Longview Fibre **7b**
 Lorai **9b**
 Lotus Development **18c**
 Louisiana Land **11b**
 Louisiana-Pacific **19a**
 Lowe's **8**
 LSI Logic **9d**
 LTV **5**
 Lubrizol **4**
 Lukens **16b**
 Lyondell **4**

M
 Macy (R.H.) **8**
 Magma Copper **16c**
 Manor Care **12c**
 Manpower **21e**
 Manville **19b**
 Mapco **11b**
 Marion Merrell Dow **12b**
 Mark IV Industries **15a**
 Marriott **14c**
 Marsh & McLennan **17a**
 Marshall Inds. **21b**
 Martin Marietta **1**
 Masco **6b**
 Matco **14d**
 Maxtor **18b**
 Maxus Energy **11b**
 Maxxam **16a**
 May Department Stores **8**
 Maytag **6b**
 McCaw Cellular **22a**
 McCormick **10b**
 McDermott Intl **21a**
 McDonald's **14a**
 McDonnell Douglas **1**
 McGraw-Hill **20b**
 MCI Communications **22a**
 McKesson **12a**
 Mead **19b**
 Media General **20b**
 Medtronic **12d**
 Mellon Bank **3a**
 Melville **8**
 Mercantile Stores **8**
 Merck **12b**
 Meridian Bancorp **3a**
 Merrill Lynch **17a**
 Merry-Go-Round **8**
 Metropolitan Financial **17c**
 Meyer (Fred) **8**
 Michigan National **3b**
 MicroAge **18a**
 Micron Technology **9d**
 Microsoft **18c**
 Mid Atlantic Medical **21c**
 Midland **3a**
 Midwest Resources **24a**
 Miller (Herman) **18a**
 Millipore **9c**
 Mine Safety Appliances **12d**
 Minnesota Mining **15a**
 Mitchell Energy **11b**
 MNC Financial **3a**
 Mobil **11b**
 Modine Mfg **2b**
 Monsanto **4**
 Montana Power **24a**
 Morgan (J.P.) **3a**
 Morgan Stanley **17a**
 Morrison **14d**
 Morrison Knudsen **21a**
 Motorola **9b**
 Mueller Inds. **16c**
 Multimedia **20a**
 Murphy Oil **11b**
 Muscadand Stores **14d**

N
 Nacco industries **11a**
 Nalco Chemical **4**
 Nash Finch **10a**
 Nashua **7b**
 National City **3b**
 National Health Labs **12c**

National Intergroup **5**
 National Medical **12c**
 National Semicond **9d**
 National Service **9a**
 NationsBank **3c**
 Navistar International **2a**
 NBD Bancorp **13a**
 NCH **6d**
 Neiman Marcus Group **8**
 New England Electric **24a**
 New York State E&G **24a**
 New York Times **20b**
 Newell **15a**
 Newmont Gold **16c**
 Newmont Mining **16c**
 Niagara Mohawk **24a**
 Nicor **24b**
 Nike **6a**
 NL Industries **4**
 Nordstrom **8**
 Norfolk Southern **23b**
 Nortek **15a**
 Northeast Utilities **24a**
 Northern States **24a**
 Northern Trust **3b**
 Northrop **1**
 Norwest **3b**
 Novell **18c**
 Nucor **16b**
 Nynex **22b**

O
 Occidental Pet **11b**
 Office Depot **21b**
 Ohio Edison **24a**
 Oklahoma G&E **24a**
 Olin **4**
 Olsten **21e**
 Omnicom Group **21d**
 Oneok **24b**
 Oracle Systems **18c**
 Orinda HealthCorp **12c**
 Orange & Rockland Uts. **24a**
 Oregon Steel Mills **16b**
 Oryx Energy **11b**
 Outboard Marine **14d**
 Owens & Minor **12d**
 Owens-Corning **13a**
 Owens-Illinois **7a**
 Oxford Industries **6a**

P
 Paccar **2a**
 PaoliCare Health **12c**
 Pacific G&E **24a**
 Pacific Telecom **22a**
 Pacific Telesis Group **22b**
 PaineWebber Group **17a**
 Pall **5**
 Pamida Holdings **8**
 Panhandle Eastern **24b**
 Paramount Communs **14b**
 Penn Traffic **10c**
 Penney (J.C.) **8**
 Pennsylvania Power **24a**
 Pennzoil **11b**
 Pentair **15b**
 Pep Boys **8**
 PepsiCo **6c**
 Perkin-Elmer **9c**
 Perry Drug Stores **12a**
 Petrie Stores **8**
 Pfizer **12b**
 Phelps Dodge **16c**
 PHH **23c**
 Philadelphia Electric **24a**
 Philip Morris **6c**
 Phillips Petroleum **11b**
 Phillips-Van Heusen **6a**
 PHM **13b**
 Piedmont Natural Gas **24b**
 Pier 1 Imports **6b**
 Pinkerton's **21e**
 Pinnacle West **24a**
 Pioneer Hi-Bred **10b**
 Pitney Bowes **18a**
 Pitston **11a**
 Ply Gem Industries **13a**

PNC Financial **3a**
 Polaroid **14d**
 Pope & Talbot **19a**
 Portland General **24a**
 Potlatch **19b**
 Potomac Electric **24a**
 PPG Industries **13a**
 Praxair **4**
 Precision Castparts **16c**
 Premark International **5**
 Premier Industrial **21b**
 Preston **23d**
 Price **8**
 Primerica **17a**
 Progressive **17b**
 Promus **14c**
 Provident Life **17b**
 PSI Resources **24a**
 PS Co. of Colorado **24a**
 PS of New Mexico **24a**
 Public Service Ent. **24a**
 Puget Sound Power **24a**

Q
 Qualex **16b**
 Quantum **18b**
 Quantum Chemical **4**
 QVC Network **8**

R
 Ralston Purina **10b**
 Raychem **9a**
 Raytheon **9b**
 Reebok International **6a**
 Reliance Electric **9a**
 Republic New York **3a**
 Revco D.S. **12a**
 Reynolds & Reynolds **18a**
 Reynolds Metals **16a**
 Rhone-Poulenc Rorer **12b**
 Richfood Holdings **10a**
 Rite Aid **12a**
 RJR Nabisco **6c**
 Roadway Services **23d**
 Rochester G&E **24a**
 Rochester Telephone **22b**
 Rockwell International **5**
 Rohm & Haas **4**
 Rohr **1**
 Rollins **21e**
 Rose's Stores **8**
 Ross Stores **8**
 RPM **13a**
 Rubbermaid **15a**
 Ruddick **10c**
 Russell **6a**
 Ryder System **23c**
 Rykoff-Sexton **10a**

S
 Safeco **17b**
 Safeguard Scientifics **18c**
 Safety-Kleen **21e**
 Safeway **10c**
 Salomon **17a**
 San Diego G&E **24a**
 Santa Fe Pacific **23b**
 Scana **24a**
 SCE Corp **24a**
 Schering-Plough **12b**
 Schlumberger **11c**
 Scholastic **20b**
 Schulman (A.) **4**
 Schwab (Charles) **17a**
 Scott Paper **19b**
 Scripps (E.W.) **20b**
 Seaboard **10b**
 Seagate Technology **18b**
 Sears, Roebuck **8**
 Seaway Food Town **10c**
 Service Corp. Intl **21e**
 Service Merchandise **8**
 Shaw Industries **15d**
 Shawmut National **3a**
 Sherwin-Williams **13a**
 Shoney's **14a**
 ShopKo Stores **8**
 Signet Banking **3c**

Sizzler International **14a**
 Smart & Final **10a**
 Smith (A.O.) **2b**
 Smith's Food & Drug **10c**
 Smithfield Foods **10b**
 Smucker (J.M.) **10b**
 Snap-on Tools **15b**
 Society **3b**
 Sonat **24b**
 Sonoco Products **7b**
 Southern **24a**
 Southern New Eng. Tel. **22b**
 Southwest Airlines **23a**
 Southwestern Bell **22b**
 Southwestern PS **24a**
 Spiegel **8**
 Springs Industries **15d**
 Sprint **22a**
 SPX **15b**
 St. Paul **17b**
 Standard Federal **17c**
 Standard Motor Prods. **2b**
 Standard Products **2b**
 Standard Register **18a**
 Stanhome **6d**
 Stanley Works **15b**
 Staples **21b**
 State Street Boston **3a**
 Sterling Chemicals **4**
 Stewart & Stevenson **15c**
 Stone Container **7b**
 Stop & Shop **10c**
 Storage Technology **18b**
 Strawbridge & Clothier **8**
 Stryker **6a**
 Student Loan Mktg. **17a**
 Sun **11b**
 Sundstrand **1**
 SunTrust Banks **3c**
 Super Food Services **10a**
 Super Rite **10a**
 Super Valu Stores **10a**
 Supermarkets Gen **10c**
 Syntex **12b**

T
 Tandem **6d**
 Tandem Computers **18b**
 TBC **21b**
 Tech Data **18a**
 Teco Energy **24a**
 Tecumseh Products **13a**
 Tektronix **9c**
 Teleflex **1**
 Teleflex **1**
 Temple-Inland **7b**
 Tenneco **5**
 Teradyne **9c**
 Terra Industries **4**
 Texaco **11b**
 Texas Industries **13a**
 Texas Instruments **9d**
 Texas Utilities **24a**
 Textron **5**
 Thomas & Betts **9a**
 Thorn Apple Valley **10b**
 3Com **18b**
 3M **15a**
 Tidewater **11c**
 Time Warner **20b**
 Times Mirror **20b**
 TJX **8**
 TNT Freightways **23d**
 Torchmark **17b**
 Torco **6b**
 Tosco **11b**
 Toys 'R' Us **8**
 Tribune **20b**
 Trinity Industries **23c**
 Trinova **15a**
 TRW **5**
 Tyco Toys **14d**
 Tyson Foods **10b**

U.S. Shoe **8**
 U.S. Surgical **12d**
 UAL **23a**
 UJB Financial **3a**
 Unif **15d**
 Union Bank **3d**
 Union Camp **19b**
 Union Carbide **4**
 Union Electric **24a**
 Union Pacific **23b**
 Union Texas **11b**
 Unisys **18b**
 United Illuminating **2**
 United Stationers **21**
 United Technologies **17b**
 Unistrut **17b**
 Universal Foods **10d**
 Universal Health **12**
 Unocal **11b**
 UNUM **17b**
 Upjohn **12b**
 US West **22b**
 USAir Group **23a**
 USF&G **17b**
 USG **13a**
 USLife **17b**
 USL **6e**
 USX-Marathon **11b**
 USX-U.S. Steel **16b**

V
 Valero Energy **11b**
 Valhi **5**
 Valley National **3d**
 Valpar **13a**
 Valspar **13a**
 Vantage City **8**
 Vantage Associates **9**
 Varsity **15c**
 Venture Stores **8**
 VF **6a**
 Viacom **20a**
 Village Super Market **10c**
 Volk Info. Sciences **2**
 Vons **10c**
 Vulcan Materials **13**

W
 Wabash **8**
 Wachovia **3c**
 Wackenhut **21e**
 Wal-Mart Stores **8**
 Walgreen **12a**
 Wallace Computer **9**
 Warnaco Group **6d**
 Warner-Lambert **12**
 Washington Post **21**
 Waste Management **10c**
 Weirton Steel **16b**
 Weiss Markets **10c**
 Wellman **4**
 Wells Fargo **3d**
 Western Digital **18a**
 Western Publishing **10c**
 Westinghouse Elec. **10c**
 Westmoreland Coal **10b**
 Westvaco **19b**
 Wetterau **10a**
 Weyerhaeuser **19c**
 Wheelabrator Tech. **10c**
 Wheeling-Pittsburgh **10c**
 Whirlpool **6b**
 Whitman **5**
 Wicor **24b**
 Willamette Industries **10c**
 Wilcoxon & Gibbs **21**
 Williams **24b**
 Wisconsin Energy **21**
 Wico **4**
 Woolworth **8**
 Worthington Inds. **10c**
 WPL Holdings **24a**
 Wrigley (Wm.) Jr. **1**
 Wyle Laboratories **10c**

XYZ
 Xerox **18b**
 Yellow Freight **23d**
 York International **6**
 Zenith Electronics **1**
 Zenith Natl. Ins. **17**
 Zurn Industries **24a**

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SATURN

GM FINALLY HAS A REAL WINNER. BUT SUCCESS IS BRINGING A FRESH BATCH OF PROBLEMS

Karen M. Tibus ought to be delighted. While her rivals are offering steep discounts to move their metal, Tibus, a Plymouth (Mich.) Saturn dealer, is able to charge full price. The problem is, she can't keep her showroom stocked. In early August, she had just four Saturn subcompacts on hand, instead of the usual 200. She has already sold the nine demonstration models her sales staff was driving. Says Tibus: "It's very frustrating."

It's also very common. Saturn dealers across the country are staring at empty lots. After a slow start, General Motors Corp.'s import-fighting small cars are so hot right now that the Spring Hill (Tenn.) factory can't keep up with demand (charts, page 88). Boasting a high-quality reputation and revolutionary no-haggle sales tactics, Saturn dealers in July sold 22,305 cars—an average of 115 apiece. That's twice the rate per dealer for the nearest competitor, Toyota Mo-

tor Co., and "far outstrips our expectations," says Donald W. Hudler, Saturn Corp.'s vice-president for sales.

Saturn's sudden blast up the sales charts is heartening for its troubled parent. Former GM Chairman Roger B. Smith conceived the project as a laboratory in which to reinvent his company. While GM has so far failed to take full advantage of Saturn's many innovations, the success does suggest that there's hope for the world's largest carmaker.

BIG FIGHT. As foreign rivals continue to flood the market with new models, Saturn is meeting them head-on. Almost overnight, Saturn has become the highest-quality American-made brand, with as few defects as Hondas

and Nissans. It's stunningly successful at satisfying the customer, trailing only Lexus and Infiniti, according to researcher J.D. Power & Associates (table).

So the auto maker clearly has a winner on its hands. Now, the question is: Will GM know what to do with it? Saturn's growth spurt is forcing some tough decisions at GM's Detroit headquarters. To keep up the new division's momentum, GM's top brass will have to pump in more money, even though the burden of Saturn's \$5 billion initial investment means it is losing some \$40 million a year and probably won't turn a profit until the mid-1990s. Already, Saturn President Richard G. "Skip" Faure is clamoring for money to increase Spring Hill's assembly capacity to 500,000 cars a year, and to design new, larger models for the late 1990s.

He isn't going to get it without a fight. After last year's disastrous \$2-billion loss from North American operations, GM's purse strings are drawn tighter than ever. Every dollar spent on Saturn means less support for struggling divisions such as Chevrolet, which desper-

SATURN MOVES INTO HIGH GEAR...

MONTHLY UNIT SALES



**1992
CUSTOMER-SATISFACTION
RATINGS***

*SCORE ON J.D. POWER'S SURVEY OF

needs to update its outmoded plants (page 90). And with GM set to close 10 assembly plants, any announcement that it is building a new factory for Saturn will set off a fire storm of protest from unions and local governments around the country. "It's an incredibly tricky situation," says analyst Hann Keller of Furman Selz Inc. in New York.

Saturn is at a crossroads. Started from scratch, it was coddled with time and resources and kept well removed from tradition-bound GM. But its very success—and GM's mounting problems—mean that the nine-year-old venture will no longer be cosseted but must begin to fend for itself. "The great social experiment is over," says consultant James Harboure, a former Chrysler Corp. manufacturing executive. "Now, Saturn has to compete for money."

WITH THE OLDS? GM Chairman Robert Stempel, for one, isn't convinced Saturn deserves more investment just yet. He first wants the unit to squeeze as much production as possible out of its existing plant, where capacity now is 100,000 cars a year. He also wants it to start making money. "We don't need to add any capacity,"

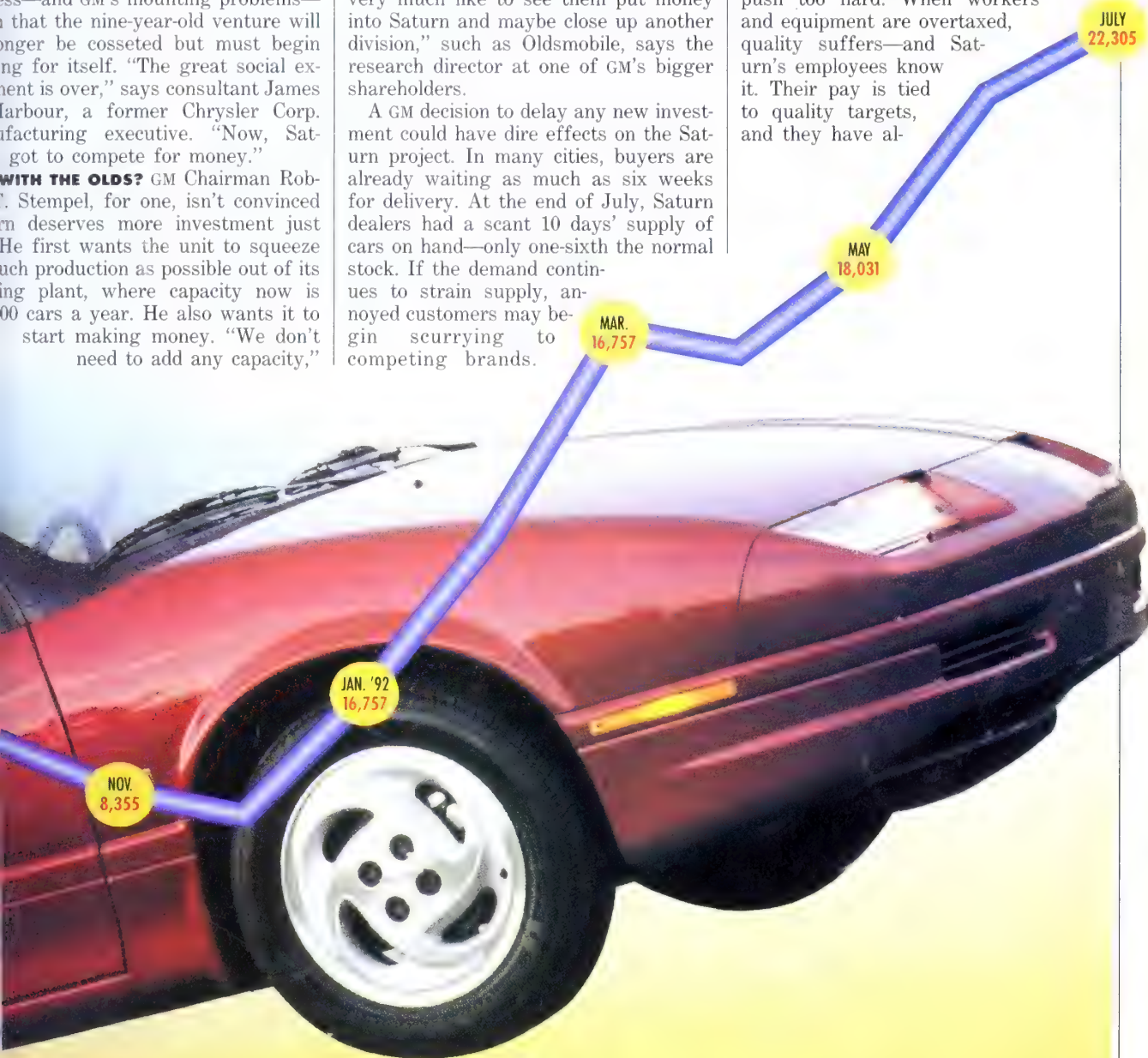
he says. "We're going to build Saturns at Spring Hill, Tenn.—period."

That may not be the final word, though. John F. Smith Jr., who was installed as president by GM's board in April with a mandate to get the carmaker rolling again, is still trying to figure out how Saturn fits into his vision for North American operations. He may lay out his plan for the board in October, and there is some indication he may opt to increase Saturn capacity by converting an existing GM plant. That's a choice that would please many investors. "I'd very much like to see them put money into Saturn and maybe close up another division," such as Oldsmobile, says the research director at one of GM's bigger shareholders.

A GM decision to delay any new investment could have dire effects on the Saturn project. In many cities, buyers are already waiting as much as six weeks for delivery. At the end of July, Saturn dealers had a scant 10 days' supply of cars on hand—only one-sixth the normal stock. If the demand continues to strain supply, annoyed customers may begin scurrying to competing brands.

That could cause ripples far beyond Saturn's income statement: If Saturn's current momentum flags, it will be a lot easier for GM's vast bureaucracy to ignore the upstart's innovations. "How this [growth] is managed is crucial," says David E. Cole, director of the Office for the Study of Automotive Transportation at the University of Michigan.

Obviously, the cheapest way to go is to lean on Spring Hill for more production, as Stempel wants. There is definitely room for improvement in productivity, but the company must be careful not to push too hard. When workers and equipment are overtaxed, quality suffers—and Saturn's employees know it. Their pay is tied to quality targets, and they have al-



...AND BUYERS LIKE WHAT THEY'RE GETTING

INFINITI
167

SATURN
160

ACURA
148

MERCEDES-BENZ
145

TOYOTA
144

INDUSTRY
AVERAGE
129

DATA: J.D. POWER & ASSOCIATES

DEBORAH WIKARYASZ Line worker

The plant where Wikaryasz used to build Cadillacs seems a distant memory. "We don't have the back-stabbing and the yelling and the things I've seen," she says. Her team does more than just assemble fixtures on the left side of each Saturn: It "hires" workers, approves parts from suppliers, chooses its equipment, and handles administrative matters such as its budget. "We can keep our costs down and pass the savings along to the customer."



ready demonstrated that they won't compromise quality. Last October, after managers pushed through a production increase that wound up raising the number of defects, line workers staged a slowdown during a Stempel visit. Saturn managers eventually eased off on their production goals.

Now, LeFauve is about to ratchet up again, trying to lift production to meet demand without compromising quality. He is adding a third crew to boost capacity 44% and get Spring Hill running at full tilt. That should happen by next March, three months earlier than planned. To ease the pressure until then, Hudler has asked dealers to delay for up to six months the opening of more than 25 new outlets.

With an extra \$1 billion to bring Spring Hill's capacity to 500,000, LeFauve could turbocharge Saturn's growth. He would have plenty of capacity to meet demand for Saturn's new products: a four-door wagon and an entry-level coupe coming this fall, and an additional two-door model originally due in 1994 but delayed because of GM belt-tightening. Plus, he could expand Saturn's modest stable of 195 dealerships, extending the product's reach into the nine states where it's not yet available. Saturn's sales could quickly rival those of the Buick Motor Div., GM's third-largest unit. Chevy and Pontiac are No. 1 and No. 2, respectively.

DEATH RATTLE? With a further \$1 billion or so to develop a larger Saturn model, the company's potential would really start to mushroom. As the value-conscious baby boomers who are now buy-

ing Saturns grow older, they'll be looking to move up to cars with more room, comfort, and features. Mimicking the tactic that Japanese manufacturers used so successfully to gain market share in the 1980s, Saturn plans to grow along with them, offering a larger car late in the 1990s.

Saturn will also need fresh models to keep pace with technical advances by the Japanese. So far, however, GM hasn't committed funds for Saturn models beyond 1995. And since it takes at least three years to design a new car, delays now can be deadly later. GM's hesitation makes one top United Auto Workers official nervous: "I'm worried about GM's long-term commitment to Saturn."

Stempel argues that today's Saturn buyers can graduate to existing GM brands that traditionally cater to older buyers, such as Cadillac, Buick, and Oldsmobile. But Saturn buyers aren't the same as GM's customers of the past. Many of them are former import buyers, and they like Saturn's nimble, Japanese-like feel and its more contemporary design. Saturn's research shows that 70% of its buyers would have purchased a non-GM product if they hadn't selected Saturn. Fully half of them would have bought Asian models. "Buicks are not going to appeal to baby boomers when they're 50 years old," says E. F. Hutton analyst Joseph S. Phillippi.

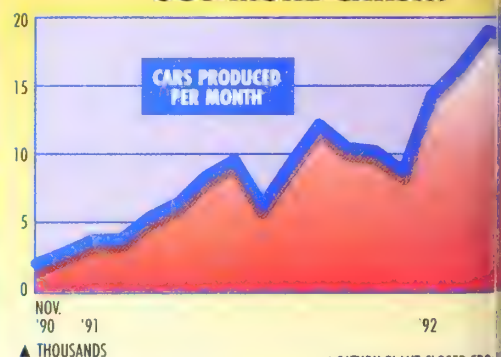
It's not that GM has money to spend on new cars. It plans to shell out some \$13.5 billion on new models through next year. But Stempel has vowed to shift GM's focus away from market share and toward profits. For that reason, much of the new-product money will probably go toward developing trucks and big cars. The vehicles, with gross margins of up to \$8,000, offer quicker profits than Saturns, which should have margins of around \$2,000 by the mid-1990s.

If GM decides to export Saturn, many believe it will retool an older plant. The obvious advantage: cost. Converting a factory should cost about \$200 million less than building a new one, although the

total cost depends on which plant is selected. It's also a lot more appealing politically, since such a plant could employ workers who might otherwise become unemployed or be forced to relocate. Spring Hill. Some observers are pushing for a plant that has been closed for several years. At such a factory, the timing goes, more of the ex-workers would have found other jobs. Saturn's rigorous hiring process would thus be less disruptive than at a more recent shutdown.

GLITCHES. Converting a plant would be easy, though. The UAW could block such a plan, for one. Saturn's UAW contract, which puts everyone on salary, including line workers, is a radical departure from GM's pact. It gives workers voice in all management decisions and will link 20% of pay to quality, productivity, and profitability. Union leaders are doubting the depth of GM's commitment.

SATURN IS CRANKING OUT MORE CARS...



urn-style labor rela-
say they won't adopt
contract elsewhere.
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and go at GM," says
a spokesman. "Now
re the Saturn fad."
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out 1,000 cars a day—20% below
's initial target.

lenecks persist in the plant. Some
acturing experts say Saturn tack-
much at once, making it hard to
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ain operation is having trouble
g unexpectedly high demand for
atic transmissions. And the paint



ANTHONY MILLS UAW business unit coordinator

Unlike at other plants, the union representative has lots of input on business issues. His role on personnel issues has changed dramatically, too. Say a worker is charged with chronic absenteeism. "The role I used to play was much like a lawyer," Mills says. "I still had to represent that person even if I knew that person was guilty. But the union here is assuming that people who come to Saturn are accountable for their own actions."

system produces uneven quality. The Band-Aid solution: Spare plastic body panels are on hand so that workers can quickly replace blemished ones.

Because Spring Hill is so highly integrated, a minor delay in one part of the plant can shut down the whole operation. The company is scrambling to ensure that glitches are less likely to knock everything off track. During the two-week shutdown, maintenance workers added space for more inventory between departments as a buffer. For instance, they made room for 20 additional instrument panels, so snags in that part of the factory would be less likely to halt the main final assembly line. "If they're just now recognizing those problems, somebody ought to be canned," storms consultant Harbour. LeFauve says that most of the wrinkles are now out of the system and that it will be glitch-free by fall, with two shifts running at full speed.

Whatever the hitches, Saturn has already done a lot right. Its high quality ratings are due largely to the revolutionary labor agreement that makes partners of Saturn's blue- and white-collar workers and gives everyone the authority to solve quality problems. Line workers who encounter defective parts, for example, often phone the supplier to recommend a fix. The 14-member door team recently suggested rearranging machinery to improve quality and productivity. The

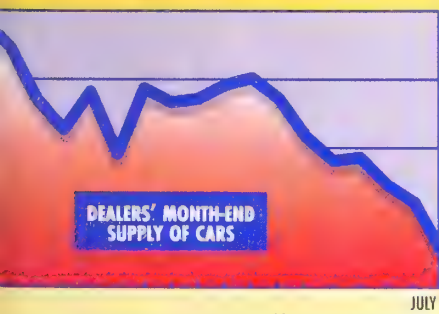
moves also cut out two people, who then transferred to another part of the plant. "You can trust the people you're working with. So if I come up with an idea, I won't be worked out of a job," says team member Gregory L. Arthur, a 20-year GM veteran.

Saturn's folksy, offbeat advertising, created by San Francisco's Hal Riney & Partners, has done much to establish its image as an unusual car company. The ads focus on Saturn buyers' lifestyles as much as on their cars, making the ads easy to relate to. They play up product themes that baby boomers hold dear, such as safety, utility, and value. The almost-instant result is one of the most sharply focused brand images in the auto world. "Their advertising ought to be a lesson for everyone," says Keller.

NO HAGGLING. The company's novel approach to retailing has also set a new standard for the industry. Its cars carry no rebates and are priced aggressively, starting at \$9,195, even after an average 8% hike for 1993 models. Dealers get large territories, so they compete with rival brands instead of each other. Courses in Spring Hill instruct managers and salespeople in low-pressure, haggle-free selling techniques. They learn how pampering customers can create the word-of-mouth that's the most effective kind of advertising (BW—Aug. 3). Saturn's success is "one of the most astonishing proofs of simple, back-to-basics marketing I've ever seen," says Laurel Cutler, a former Chrysler vice-president and now vice-chairman at ad agency FCB/Leber Katz Partners.

The combination of a good product

BUT CAN'T KEEP UP WITH DEMAND



DATA: COMPANY REPORTS, WARD'S AUTOMOTIVE REPORTS

MILTON FLETCHER

Human resources
adviser

Fletcher administers management benefits and compensation. Although he found it "initially shocking" to sit alongside UAW reps to conduct performance reviews of managers, the 19-year GM veteran is sold on Saturn after being on the job for just two months. "Walking into a typical situation where they're talking partnership, I would have expected just lip service. That's not what I found here."



and top-notch service makes Saturn owners among the happiest on the road. Dan Bitcon, a New Jersey video producer, recently plunked down \$9,700 for a Saturn sedan. Since then, staffers from both the dealership and Saturn headquarters have called to find out how the car is doing and how he likes it. They also sent him a questionnaire. "Knowing that it was a General Motors company, I

didn't expect such service," Bitcon says.

Buyers' complaints have been fairly limited. At the outset, Saturn had two recalls, one for defective seats and another for corrosive engine coolant. Some early owners also complained of insufficient headroom and noisy, vibrating engines. Last year, Saturn began installing rear seats that are half an inch lower than the initial design. To muffle noise

and vibration, Saturn

signed the engine mount and added more insulation under the hood.

Now, GM's rivals are starting to learn from Saturn's successes. Chrysler partly modeled its new million dealership-training program on Saturn's. In April, Ford Motor Co. began selling its subcompact Escort models at one price. The program, which discourages haggling, does not ban it, has been such a hit that Ford has expanded it to other models. Even Japanese companies, leaders in small cars for more than a decade, are taking notice. "We're watching Saturn closely," says Hideyo Miyano, engine research head at Honda Motor Co.'s U.S. unit. "We are very

impressed, and that's not simply flattery."

One company that could pay more attention to Saturn's innovations is itself. Some outsiders are pushing it to implement Saturn-style training programs. Others want to see more GM divisions adopt rewards for high customer-satisfaction ratings. But so far, with the exception of antilock brakes developed by Saturn and now used in some of

MEANWHILE, CHEVY IS SULKING IN THE GARAGE

Gordon Stewart gnashes his teeth every time he sees the commercials, and lately he has been seeing them a lot. The offending ads, pushing the Saturn, may be the warmest and fuzziest car spots ever made. But what bugs Stewart is not so much what the ads say; it's what they leave unsaid. "Saturn advertising creates an image of a special vehicle built in a special place by special people," gripes the Michigan Chevrolet dealer. "Where does that put the rest of what GM builds?"

Call it a bad case of sibling rivalry. While wunderkind Saturn Corp. basks in the limelight with its hot-selling new cars, Chevrolet has been shunted aside. It has held on to nearly one-quarter of the growing truck market. But the division, which two decades ago was selling one-fifth of all cars in the U.S., today has only a 12.1% share. The former powerhouse's identity as General Motors

Corp.'s entry-level division has blurred.

Many Chevy dealers are convinced that Saturn is stealing their customers. They say the aging, hard-to-sell cars and trucks clogging their showrooms are the direct result of GM's decision to bestow billions of dollars in development largess on Saturn during the past half-dozen years. "All that money that went to Saturn and other GM divisions left Chevrolet naked," says Lou Bachrodt, a Pompano Beach (Fla.) Chevy dealer.

RUSTING AWAY? Now, as rival domestic carmakers are regaining ground from the Japanese, Chevy is not even along for the ride. Ford Div. and Chrysler Corp. boosted sales of cars and light trucks this year by 15% and 9.6%, respectively, but Chevy sales are off 4.7%. The erosion of Chevrolet is the "most horrendous marketing and merchandising blunder of the decade," says Maryann Keller, auto analyst at Furman Selz Inc. Jim C.

Perkins, who left Toyota Motor Corp. in 1989 to head the ailing Chevrolet Div., declined to be interviewed.

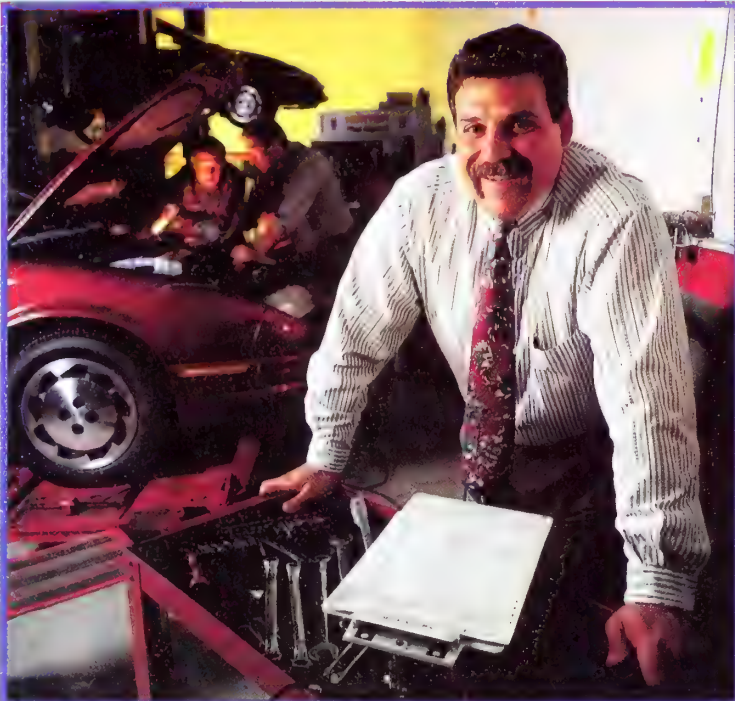
With Chevy still kicking in nearly 10% of GM's 2.1 million annual vehicles, the parent company can hardly let its largest division rust. A fix is probably the most difficult



s, there has been lit-
cross-pollination. "I
know anybody who
sified with the pace,"
el concedes. "We've
got to get this place

ny critics believe bu-
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from Saturn—or any-
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The company has
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ng cars together in a
er GM plant, using
ized former GM work-
GM's overall quality
productivity still lags
behind the competi-
GM has been slow to
ideas from its highly successful
ean operations, too. "One of the
GM does very poorly is spread im-
ments across the system," says
d Ephlin, formerly a UAW vice-
ent heading the GM department.
arrogance of GM makes it difficult
em to learn from anybody."

urn's reputation as a pampered
hasn't helped. GM is trying to over-



ROBERT JOYCE

Saturn of Boston

As head of parts and service at a dealership, Joyce gets the gripes. "You paid good money for your vehicle, and if you have a problem, you're upset," he says. "People come through that door immediately looking for confrontation because that's what they're used to. Then, they run into me. We sit down at the table, discuss it, have a cup of coffee. Much nicer than the traditional 'Give me the keys, sit down, and we'll get to you.'"

come it by moving a few Saturn executives to key corporate jobs. Guy D. Briggs, former Saturn vice-president for manufacturing, is now GMC Truck's director of operations. Alan G. Peritton, formerly Saturn's director of materials management, is now head of GM's North American purchasing operations.

In time, Saturn may have more influence on GM. After all, the company has

been building cars for less than two years, and only lately have its lofty ideals begun to translate into dramatic sales growth. But a payoff—in profits or innovation—will never materialize if Saturn is allowed to run out of gas.

By David Woodruff, with James B. Treece, in Detroit, Sunita Wadekar Bhargava in New York, and Karen Lowry Miller in Tokyo

eral Motors has," says Christo-
Cedergren, a consultant at
e Group Inc. Considering the
moth's many problems, epitom-
last year's \$7.5 billion loss in
erica, that's saying something.
hevrolet needs is some fresh
and quickly. New cars and
in the pipeline, but until they



trickle out over the next few years, aggressive price-cutting seems to be Chevy's best bet for moving the metal. Since June, it has been offering \$1,500 cash back to buyers of the Lumina. That compares with \$750 back on most versions of Ford's faster-selling Taurus. Perkins and his team must also hone a sharper marketing focus. Critics say the division is trying to be all things to all consumers. One solution: trimming some models from a lineup that now runs all the way from \$6,999 subcompacts to \$18,155 trucks and \$33,635 Corvettes.

NICHE EROSION. Saturn, of course, isn't the only cause of Chevy's woes. Ford Motor Co. has kept Chevy from gaining the dominance in trucks that Perkins has promised. The weak economy is hitting Chevy's cost-conscious customers especially hard. Efforts to curtail unprofitable deals with car-rental companies are trimming its sales, too. And in a market crowded with brands and models, Chevy's niche is becoming more difficult than ever to distinguish.

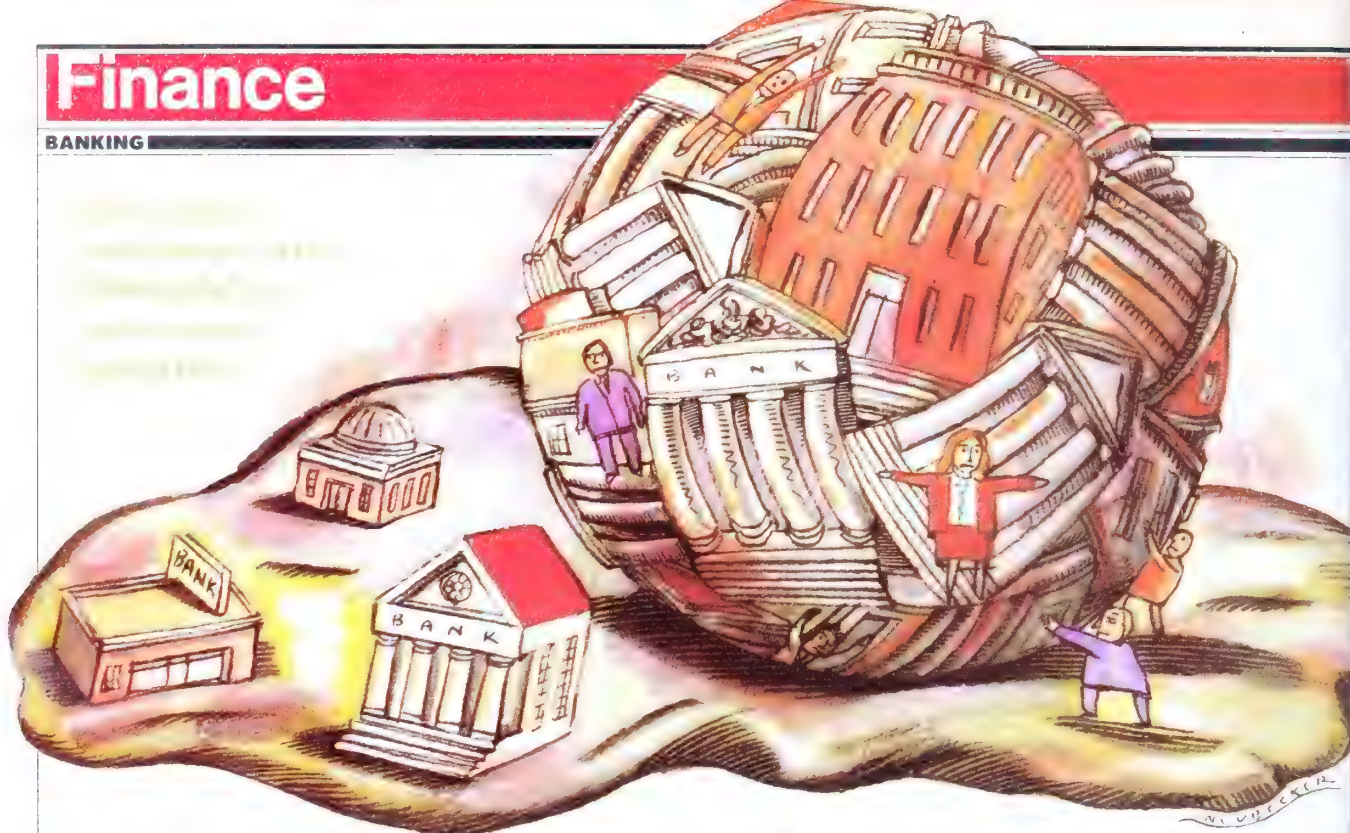
BACHRODT: GM HAS "LEFT CHEVROLET NAKED"

Even without Saturn, cash-strapped GM would have had less capital to

funnel into Chevrolet. Tight money means delays in introducing badly needed new or redesigned models. GM recently had to push back a replacement for the 11-year-old Cavalier until 1995, for instance. Chevy is stuck with what many critics call uninspiring cars: the warmed-over Caprice sedan, which Keller calls the "ugliest large car built"; the peculiar-looking APV minivan with its Dustbuster snout; the hard-riding Blazer sport-utility vehicle, and the lackluster Lumina.

Chevy's problems are apt to get worse before they get better. Saturn is gearing up to build more cars next year. Other auto makers are launching vehicles that will create stiff competition as well. Chrysler's new LH midsize cars aren't going to help sales of Chevy's Lumina, and Ford's spiffed-up Ranger small pickup and new Tempo are going to give their Chevy counterparts a run for their money. Chevy dealers are pinning their hopes on redesigns: the 1993 Camaro and GEO Prizm, the 1994 Blazer, and a reintroduction of the Monte Carlo. Until then, Chevy will probably go on feeling like the poor relation in the GM family.

By Kathleen Kerwin in Detroit



ARE FEWER BANKS BETTER?

Not necessarily. Doubts about consolidation are growing

First it was REITs. Then loans to Latin American governments. Then commercial real estate. Now, the buzzword among America's fad-ridden big banks is "consolidation." Bankers see mergers, especially combinations of banks with shared markets, as the key to making the industry stronger, more efficient, and better able to fight domestic and foreign competitors. And bankers have gone at consolidation with a vengeance. In 1991, banks announced more than 500 mergers, capped by three megadeals involving \$443 billion in assets.

While the merger boom, unlike the industry's lending fads of the recent past, won't bring the banking system to its

knees, it may fall far short of solving banking's troubles. Washington's top regulators are cheering consolidation on, but their research staffs report that past mergers haven't produced the efficiency gains promised by the dealmakers. The economists' findings: The average bank merger in the 1980s didn't cut costs, didn't raise productivity, and actually made the combined bank slightly less profitable. "We all believe that consolidation ought to work," says a Federal Reserve official, "but that hasn't been supported by the numbers yet."

Those disappointing numbers are contained in two recent Fed studies, which challenge the conventional wisdom in the industry that mergers make economic

sense. In one, economist Aruna Srinivasan of the Atlanta Fed followed all 1,000 mergers from 1982 through 1986—a period when many states opened their doors to out-of-state banks. In the 10 years after the deals were consummated, Srinivasan found, noninterest expenses, mostly salaries and other overhead costs, fell by 4.8% in merged banks. But those savings were easily matched by banks that remained independent. The reason: Savings on salaries and branch costs in the merged banks were offset by increases in such expenses as advertising and amortization of goodwill acquired in the takeover.

ASSUMPTIONS BELIED. A similar study by economists Allen N. Berger of the Fed's Washington staff and David B. Humphrey of Florida State University concluded that mergers didn't lead to larger and better banks. After focusing on 114 deals during the 1980s involving banks with \$1 billion or more in assets, the study found that big mergers "were about a wash" for cost savings and "slightly negative" for the merged banks' profits, says Humphrey.

Both Fed studies undercut another cherished theory of pro-merger bank-

WHY BANK MERGERS DON'T MAKE MUCH ECONOMIC SENSE

1 EFFICIENCIES ARE HARD TO COME BY Banks that merged in the '80s showed no significant gains in operating efficiency. Fed researchers say the industry would gain more by improving operations at inefficient banks than by combining banks to cut overlap and costs

2 BENEFITS ARE TOUGH TO PREDICT Fed researchers found that even efficient banks had a hard time generating cost savings after buying another bank. Eliminating market overlap through mergers didn't produce bigger savings, either

3 BIGGER DOESN'T MEAN BETTER Banks don't get more efficient as they get larger. The big banks that are now merging are already larger than the most cost-efficient size, say researchers

DATA: FEDERAL RESERVE

merging banks with overlapping offices would yield bigger cost savings. The combined bank closed redundant offices and back-office operations. Srinivasan found slightly better results for banks serving roughly the same market. Berger and Humphrey did not find any correlation between the degree of market overlap and successful cost-cutting efforts. An unpublished study also casts doubt on the savings potential of branch closings. Combining every possible in-state, big-bank office and closing half the overlapping offices would eliminate only 2.7% of the nation's 58,603 bank offices, researchers found.

Economists' results have spurred a counterattack by bankers and the consultants who broker mergers. "The academics are looking at an era when banks were interested in expansion, not efficiency," says H. Rodgin Cohen, a New York banking attorney. In the rush to cross state lines, many banks paid high prices, then failed to follow through with cost-cutting. Analysts point to the defunct Bank of New England as an example of '80s-style overexpansion. After New England failed to approve nationwide banking, it allowed 32 banks. But the bank could not keep up with the acquisition. Back-office operations remained inefficient. BNE even ran seven different systems for recording deposits.

MARKETS. Bankers, consultants, and regulators argue that the industry has focused nowadays on cutting costs and filling in gaps in banks' margins to get the best return on overhead. The year's big dealmakers claim to be helping ambitious savings goals. BankAmerica Corp. has cut 3,700 jobs since it acquired Security Pacific Corp. in April. Before starting to close excess offices, Chemical Banking Corp. says it reduced its payroll by 4,500 since announcing its merger with Manufacturers Hanover Corp. last year.

So, many banks that have been independent are racking up significant savings. For example, analysts at Midlantic Corp. in Edison, N.J., say office operating costs by \$100 million in part to staff reductions. Regulators see another benefit to consolidation: "You've got to have some major—a takeover or a big threat—to shake most of these bankers out of their complacency," says a top official. That psychological boost—chance that it can force efficiencies—banks have resisted for decades—is a boon for officials. They're willing to let the merger boom will be more than another banking fad.

Like McNamee in Washington, with John Schiller in Cleveland, Geoffrey B. in Boston and bureau reports

PINNING THE BLAME ON WALL STREET'S LAWYERS

The securities bar braces for a possible SEC charge in Salomon's scandal

Remember Donald M. Feuerstein? He was the general counsel of Salomon Inc. who left in the wake of the August, 1991, government-bond auction scandal—along with four other Salomon executives, including CEO John H. Gutfreund. So far, the Securities & Exchange Commission has not charged any of the Salomon five.

But it now appears that the SEC is getting ready to move—in a way that has the securities industry all riled up. Feuerstein may be hit with a charge normally reserved for line managers: "The SEC seems to be doing exactly what it can to bring 'failure to supervise' charges against Don Feuerstein," says Robert I. Kleinberg, who heads the Legal & Compliance Div. of the Securities Industry Assn. (SIA) and is general counsel at Oppenheimer & Co. "It's a bum rap to be considered a supervisor when you are a professional legal adviser." The SEC declined to comment.

Says Harvey L. Pitt, Feuerstein's attorney and a former SEC general counsel: "While the SEC was certainly considering the issue of whether a lawyer could be charged with the failure to supervise... to my knowledge, no decisions have been made to charge Feuerstein with a failure to supervise."

KEEPING MUM. At issue is whether Feuerstein, as the in-house lawyer, should have acted more aggressively after he learned in April, 1991, that top trader Paul W. Mozer had been submitting false bond bids. While he persistently advised senior management to report the problem, it was August before the firm informed the SEC. Many experts believe Feuerstein should also have told Salomon's board about Mozer's impropriety as soon as it became clear management had not reported it promptly.

The SEC has begun to pin more blame

on lawyers and accountants. Last year, for example, the agency charged an accounting firm with conflict of interest. And early this year, the agency held First Albany Corp.'s general counsel responsible for a broker's misconduct for failing to oversee the broker's trading activity adequately. Without admitting liability, the charges were settled (table).

Even though it is still uncertain whether his client will be charged at all, Pitt has been busy rallying industry support. Several weeks ago, he asked the

SIA Legal & Compliance Div., made up of general counsels of many Wall Street firms, to sign a letter to the SEC in support of Feuerstein by raising general concerns about going after lawyers.

The SIA division declined to sign Pitt's letter because it wasn't in a position to judge the facts of Feuerstein's case. Instead, on Aug. 5 it sent its own letter to the SEC, voicing alarm at the move toward blaming supervisory lapses on compliance people. It argued that supervision is the role of executives who have authority to "hire, fire, reward, promote,

and demote the people who report to them." A general counsel has no such authority over employees. "For the SEC to jeopardize the contribution of these allies and mislabel them 'supervisors' flies in the face of reality and threatens to undermine... a devoted group of people who carry your message to Wall Street every day," concludes the letter.

Pitt has succeeded in eliciting an emotional plea from the industry. But it might backfire. The SEC could get tough with Feuerstein to make a point to Wall Street: Give your lawyers and compliance departments more muscle.

By Leah Nathans Spiro and Michele Galen in New York, with Dean Foust in Washington

FIRST THE ACCOUNTANTS, NOW THE LAWYERS?

► In June, 1991, the SEC charged Ernst & Young with conflict of interest because Ernst partners borrowed \$21.8 million from its client Republic Bank on favorable terms. Ernst & Young disputes the charges

► In March, 1992, the SEC found First Albany's general counsel failed to supervise a broker by not making adequate inquiries into unauthorized trades. The charges were settled

► The SEC is considering bringing 'failure to supervise' charges against Donald Feuerstein, Salomon's former general counsel

DATA: BW



TAYLOR: "I'M NOT SURE THE PROBLEMS HAVE PEAKED"

BILL TAYLOR HAS BECOME A GADFLY IN HIS OWN RIGHT

The new FDIC chairman may make Bush yearn for the Seidman days

When William Taylor was tapped to head the Federal Deposit Insurance Corp. last fall, one of his most important qualifications seemed to be that he wasn't L. William Seidman. By the time Seidman had stepped down as FDIC chairman in October, he had worn out his welcome at the White House with his dire—and all-too-accurate—predictions about the depth of the thrift industry's ills. In Taylor, who served for 15 years as a top Federal Reserve bank supervisor, Bush Administration officials appeared confident they were getting a respected bureaucrat who wouldn't make waves.

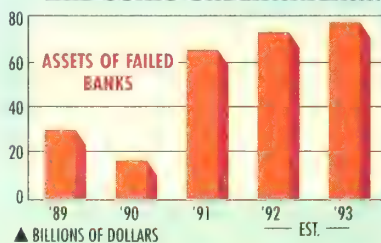
They were half right. The 53-year-old Taylor has lived up to his reputation as a tough regulator, but in his understated way, the FDIC chairman is taking stands that clash with the White House. While some Bush aides have been quick to declare that banks—like the economy—have turned the corner, Taylor, by contrast, has emerged as the Administration's prophet of gloom. "I'm not sure the problems have peaked by any means," he says. "I think you're going to have a continued high level of bank failures."

LOAN VOICE. Perhaps more worrisome for the White House, some of Taylor's initiatives run counter to Administration efforts to jawbone banks into pumping out new loans. Taylor, for instance, is pushing the FDIC board to approve a 22% hike next year in the premiums that banks pay into the ailing deposit insurance fund, which

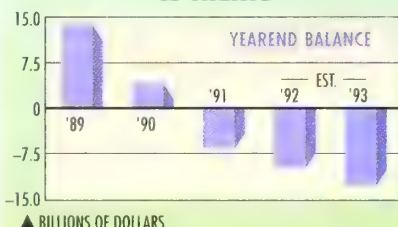
now shows a \$7 billion deficit. But critics contend that Taylor's proposal might force banks to set aside funds this year and thus crimp their ability to make loans that could spur the economy—and Bush's reelection prospects. "I haven't seen him do a lot to endear himself to the Administration," deadpans Seidman, now a Washington consultant. "Before it's over, they may even yearn for me again."

TAYLOR'S BIG HEADACHE

MORE BANK ASSETS ARE GOING UNDERWATER....



...WHILE THE FDIC FUND IS AILING



▲ BILLIONS OF DOLLARS

DATA: FEDERAL DEPOSIT INSURANCE CORP.

Taylor's professional credentials are impeccable. He joined the Chicago Fed bank examiner straight out of college in 1961. Taylor is the only FDIC chief ever to have held that job. After a stint as head lender for Chicago's small Upper Avenue Bank, Taylor rejoined the Fed in 1976 as son of a Scottish coal miner, Taylor is known for being blunt. But his style is more in keeping with the low-key culture at the Fed, where anonymity prevails.

In his new post, Taylor finds himself at center stage—and at times in conflict with the Administration. Unlike the White House, the FDIC chief is downright pessimistic about banks. While the lower interest rates have boosted industry profits this year, Taylor believes that weaker banks haven't worked through their real estate problems. And he argues that as desperate developers of new buildings lure tenants from old properties, it will send new ripple through banks' real estate portfolios. "I don't have any sense commercial real estate values have stabilized," he says.

'HE'S THE WRONG MAN.' That's one reason why Taylor wants a premium increase for deposit insurance over the Administration's strenuous objections. As banks fail, Taylor expects the fund's deficit to widen sharply. Even if the proposed increase—from 23¢ to 28¢ for each \$100 in deposits—is approved, the fund deficit could hit \$12.7 billion by 1993 (chart).

Recent regulatory changes may help in the process, Taylor says. When Congress voted last November to lend \$70 billion to bolster the insurance fund, lawmakers also gave the FDIC authority to deal more effectively with teetering banks. Under new rules, regulators won't have to wait until a bank's entire net worth is gone before seizing it. By Taylor's count, the guideline could double, to \$76 billion in assets that the FDIC will have to seize if banks go belly-up next year.

So far, the Administration has played down its differences with Taylor. Publicly, Treasury officials praise Taylor as a no-nonsense regulator. But some bank officials are openly hostile. They contend that Taylor's bearish predictions are overblown and impede the industry's efforts to get regulatory relief. They also argue that Taylor symbolizes exactly what has gone wrong with Washington's oversight of the industry: Shell-shocked by the S&L bailout, policymakers are focusing exclusively on protecting taxpayers while ignoring the economic impact of their actions. "He's a professional knothole inspector," complains Bert Ely, an Alexandria (Va.) financial consultant whose clients include the Association of Bank Holding Companies. "He's the wrong man for the job."

And although Taylor differs with

HOW THE BANK OF BOSTON TURNED ANACOMP FICHE INTO A \$500,000 SAVINGS.

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Administration over key issues, some critics say the FDIC chairman isn't above politics. While the FDIC predicted that it would close 200 banks in 1992, Taylor so far has shuttered only 69. Congressional Budget Office Director Robert D. Reichauer wonders whether the Administration intends to spring a "December surprise" by delaying the seizure of troubled banks until after the election.

Taylor bristles at suggestions that he is being influenced by election-year politics. The banking industry's recent profit surge has bought a little time for some mortally wounded institutions, he says. What's more, Taylor insists that he has never felt any backroom pressure from Administration officials to go easy on banks. Taylor insists: "They have never given me any instructions other than

'Go fix it. Don't make any mistakes.' Unfortunately for the Administration, Taylor's determination to fix the fund may become even more painful as banks and the economy continue limping. At the end, Taylor, whose term expires in February, may wear out his welcome, as Seidman did. But at the FDIC the days, that may come with the job.

By Dean Foust in Washington

MUTUAL FUNDS

MUTUAL FUNDS: THE HUBBUB OVER 'HUBS'

They could be a bonanza for sales—but will investors really benefit?

The Van Eck World Income Fund used to invest its \$244 million in foreign bonds—and did a good job of it. But by mid-August, the fund will no longer own any bonds. Instead, it will transfer all its assets to a new fund called the World Income Portfolio and simply take back shares in that.

The 11,000 shareholders will barely notice the paper shuffle. What's happening is that Van Eck World Income is becoming the first "spoke" of a "hub" fund—one of the hottest ideas sweeping through the fast-growing mutual-fund industry. Mutual-fund companies are, in effect, copying what manufacturers of clothing, food, and appliances have done for decades: putting out the same product with different labels targeted to different buyers. Van Eck eventually hopes to spin out spoke funds for banks to sell to their customers, for insurance companies to use in variable annuities, for pension-plan sponsors of 401(k) plans, or for offshore investors. These spokes will act only as conduits for investors' cash, funneling all the money to the hub to invest.

BELLS AND WHISTLES. The hub-and-spoke idea promises to increase the market for mutual funds vastly. It's especially attractive to banks that want to jump on the fund bandwagon but don't have an organization in place. A hub and spoke allows fund companies to start up new funds faster and at less cost.

Each spoke in the hub can have its own sales charges—an up-front load, a back-end load, an annual fee, or any combination. A spoke can be offered as a no-load fund, too, and each spoke can have its own name. That means different investors may end up paying different charges—or even none at all—for the same investment. The seller of a spoke fund doesn't have to tell an investor

which holds a service mark on the "hub and spoke" name and licenses the technology and software to operate spoke funds. And, adds Hoolahan, the number of funds and assets could double year-end. Other companies are developing hub-and-spoke structures for funds but can't use the term. They refer to "master" and "feeder" funds.

SHARED WEALTH? Some big names are getting into the game. The \$4.5 billion Franklin Adjustable U.S. Government Fund—the largest fund investing in adjustable-rate mortgages—is the hub with two spokes: a \$3.5 billion spoke for individual investors and a \$1 billion institutional spoke. Janus Fund, with shareholder approval, recently reorganized each of its funds into hubs and spokes even though no hub has more than one spoke—nor are

planned soon. "This proves our flexibility," says a spokesman. Others using hubs and spokes are Citibank Bankers Trust, Fidelity Funds, and Liberty National Services. Pacific Horizon Funds, for instance, plans a master fund with one fee for the U.S. investor, one for Canadians, and a third for Mexicans.

The hub-and-spoke idea will undoubtedly produce economies of scale by gathering more and more assets into one portfolio. And opponents say such economies will be passed along to investors in lower expenses. Maybe. For now, investors

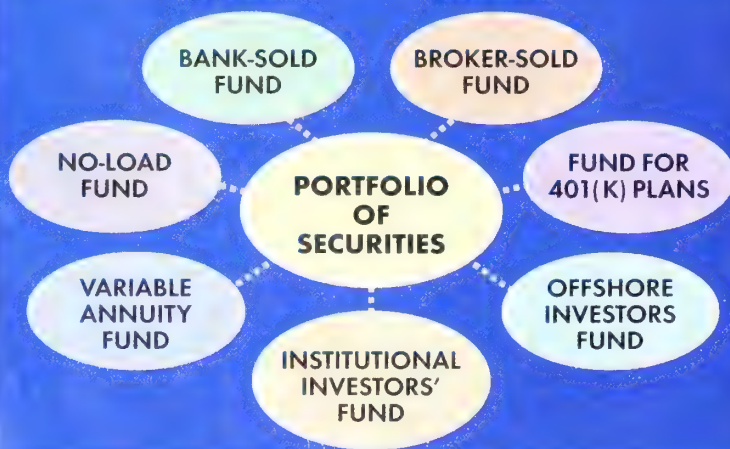
neither embrace nor shun spoke funds. Says Plaze: "Make your decision based on the investment portfolio."

Hub and spoke is a brilliant marketing concept that could make fund companies even richer. But some think the industry might better put its brains to work enhancing the returns to fund shareholders. Take care of investors, and the fund managers' riches will follow.

By Jeffrey M. Laderman in New York

HOW 'HUB-AND-SPOKE' FUNDS WORK

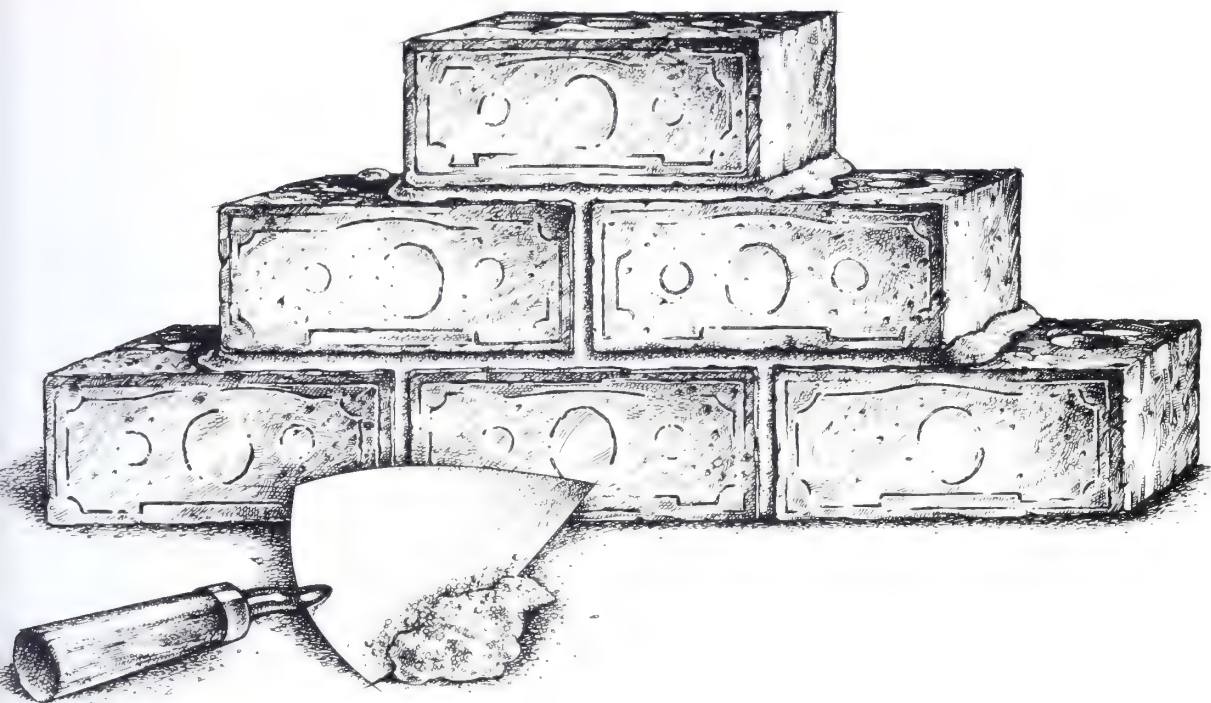
The 'hub' fund manages the investments. Each 'spoke' fund invests all its money in the hub fund but is otherwise separate in marketing and administration, and each has a different name



that he could buy the same investment under a different label for a lower price. "There's no specific rule about that," says Robert Plaze, assistant director of the Securities & Exchange Commission's Investment Management Div.

The first hub-and-spoke fund won SEC approval in 1990, and there are now an estimated 40 hubs, 60 spokes, and some \$12 billion in assets, says James E. Hoolahan of Signature Financial Group,

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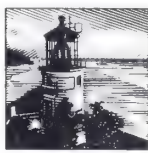
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BY GENE G. MARCIAL

A BIOTECH STOCK FOR THE STRONG OF HEART

For a biotech company that's developing and marketing products to treat cancer and autoimmune diseases, Immunex has been an investor's nightmare: It collapsed from a high of 68 a share in January to as low as 24 in late April. The stock has since edged up, slowly, to 34. But for the strong of heart, Immunex will be a gigantic winner, insist some pros.

"Except for the market's current distaste for biotechs, there is everything to like in Immunex, especially now that its legal wrangling with Hoechst has ended," argues money manager Joan Lappin, president of Gramercy Capital Management. She says the Street has "underappreciated" the rapprochement between Immunex and Hoechst, the giant German chemical company.

The two companies withdrew on July 23 their respective lawsuits against each other over GM-CSF, or granulocyte macrophage-colony stimulating factor, a new white-blood-cell stimulant that they jointly developed. It was approved by the FDA in March, 1991.

FREE VIALS. GM-CSF is marketed in the U.S. by Immunex as Leukine and by Hoechst as Prokine. But in a suit filed in April, Immunex accused Hoechst of "dumping" Prokine by sending free vials to Immunex' important customers. Hoechst countersued. The subsequent out-of-court settlement was "rather mind-boggling for a small company like Immunex," says Lappin. She figures that Immunex received a value of at least \$80 million, or \$5 a share, from the settlement. The stock over the short term, she says, is worth 50.

The key issue, says Lappin, was Hoechst's giving Immunex exclusive U.S. marketing rights to GM-CSF. It's now likely, she says, that Immunex' Leukine sales will balloon from 1992's estimated \$30 million to \$50 million in 1993, \$75 million in 1994, and \$100 million in 1995. She expects that broader uses of Leukine, now used only to facilitate bone-marrow transplants, will be approved by the FDA next year.

Hoechst also agreed to give Immunex the foreign marketing rights to TNF, or tumor necrosis factor receptor, used to treat septic shock. Hoechst also turned over its rights to sell GM-CSF in Japan and to relinquish all

IMMUNEX IS STARTING TO RECOVER



claims to Immunex' PIXY321, described by analysts as its blockbuster drug for 1995. In return, Immunex will pay Hoechst \$8 million to \$10 million.

Merrill Lynch analyst Stu Weisbrod rates Immunex a long-term buy based on its "superior long-term-product portfolio" and its recently "solidified cancer therapy franchise." He says Immunex' products, including PIXY321, a second-generation GM-CSF, "put Immunex in the same position that Amgen was in in the late 1980s."

PULLING THE REINS ON HEALTH COSTS

For a company that has two strikes against it, GMIS isn't faring too badly. Its two big areas—technology and health care—are currently on the Street's blacklist. Yet the stock has continued to hold up, refusing to fall below 13 a share, which was the initial public offering price in July, 1991.

Why? GMIS "is a new and thriving pure play in the hot business of curbing health care costs and has displayed consistent earnings growth in the past three years," says one New York mutual-fund manager. The company, which makes cost-containment software systems for health care payers such as insurance companies and HMOs, has consistently exceeded analysts' expectations, he says.

And, adds this pro, it may be a possible buyout target of some big companies, such as EDS and Policy Management Systems, both of which sell GMIS' products to their own customers. This pro says that even without a takeover premium, GMIS, now at 18, is worth 30

a share. GMIS President and CEO Owens said he was unaware of interest from either company. Policy Management Chief Financial Officer Bob Gresham would only say that business ties with GMIS are fairly new. An EDS spokesman said its relation with GMIS is "excellent" but discussed other aspects was "premature."

Krishen Sud, an analyst at Needham & Co., notes that GMIS has rapidly diversified from a one-product company into a supplier of broader cost-containment products. Its major product, ClaimCheck, uses data bases and processing algorithms to spot billing errors. ClaimCheck is expected to produce sales of \$10 million this year, \$14 million in 1993, up from 1991's \$1 million. GMIS has expanded this system to determine the appropriateness of medical procedures before they are done. And next year, it will introduce a system to profile the cost-effectiveness of doctors and health-service providers.

A T-SHIRT MAKER TEARS AHEAD

The three biggest players in the \$1.7 billion T-shirt business are pretty well-known: Fruit of the Loom, Hanes Activewear (a Sara Lee unit), and Russell. The fourth-largest, little-known Oneita Industries, which makes high-quality blank T-shirts for the screen-print industry. Its stock is now at 14½ a share, has become a recent favorite of some savvy pros.

For one thing, they note that the sale of 3 million Oneita shares in a public offering in April at 16½ a share was a rousing success. The sale included 1 million shares owned by Instrument Systems, which acquired majority control of Oneita in 1984. That reduced Instrument's stake to 26% from 51%.

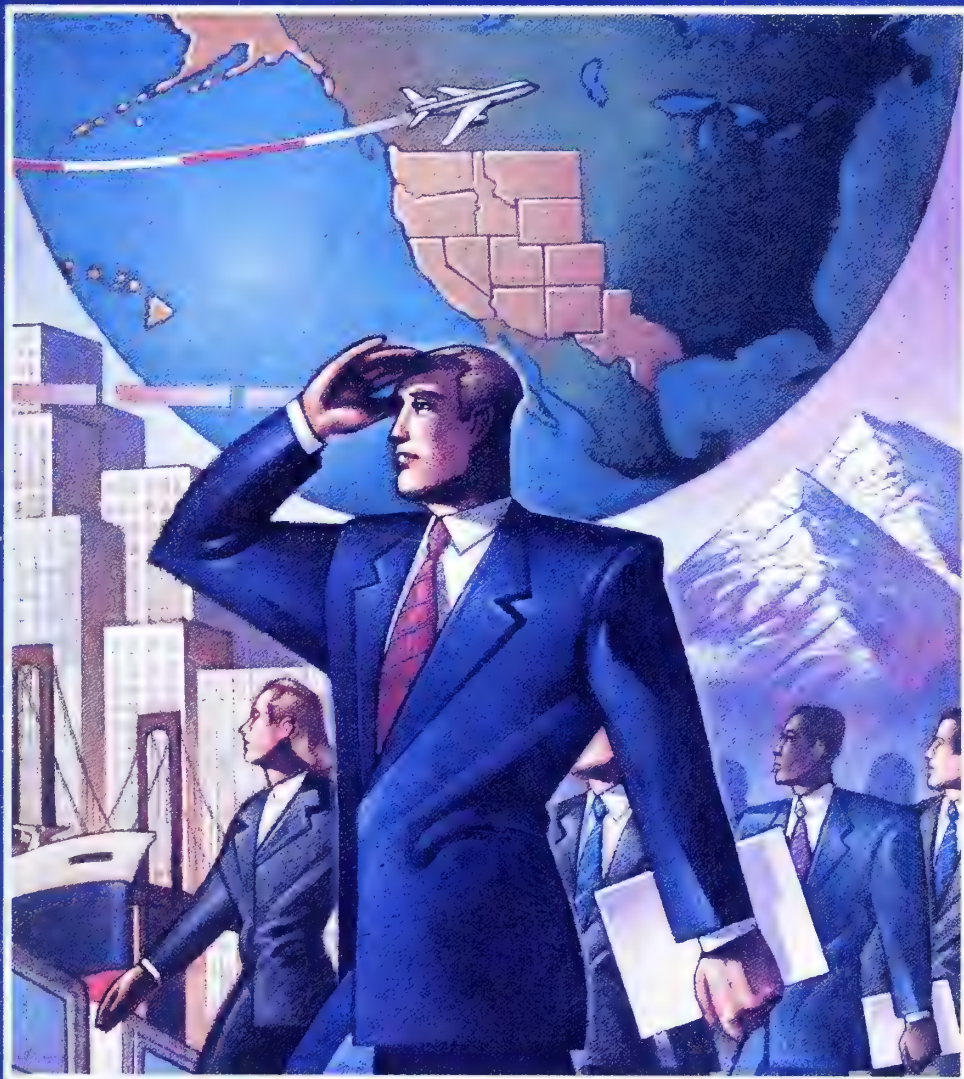
With the money, Oneita will expand capacity and hit its target of \$200 million in revenues for the fiscal year ending September, 1992, says Cecil Godman, executive vice-president at Godman Equity Management, which has a 10% stake in Oneita. When that happens, says, Fruit of the Loom and Hanes, which are neck and neck in the T-shirt business, may go after Oneita.

Hanes, he says, could become a major player in T-shirts if it bought Oneita, which in 1991 T-shirt sales were \$98 million, or 65% of total sales. Oneita also makes infant wear, selling \$41 million, sweatshirts, \$12 million. Godman says Oneita will earn \$1.30 a share this year and \$1.65 next year vs. 1991's 75¢

Special Advertising Section

WESTERN REGIONAL COMPETITIVENESS FOR 1992 AND BEYOND

THE BUSINESS WEEK WESTERN ROUNDTABLE
OF CHIEF EXECUTIVE OFFICERS



When the young were exhorted to "go west" in the 1850s, no one could have foreseen the great migration that followed, nor imagined the abundant opportunity and growth that lay ahead in that frontier. Today, with 53 million people in 12 states—from Hawaii eastward to the Mountain West—the Western region is an economic powerhouse. The California

economy alone is just slightly smaller than the United Kingdom's.

Business leaders of the region, all representing major corporations, gathered recently in Palm Springs to participate in the first annual invitational *Business Week Western Roundtable* of Chief Executive Officers. After the exclusive two-day meeting, the CEOs adjourned to enjoy the famed Nabisco Dinah Shore Golf Classic.

by Barbara H. Peters and James Peters

In line with the concerns of chief executives worldwide, these CEOs focused on the many challenges of globalization, market integration, and social and political change. But they explored these ubiquitous leadership issues from a distinct regional perspective.

A GLOBAL CONTENDER

"Historically, the Western region's economy has profited from the presence of an educated and diverse work force, state-of-the-art technology, and a wealth of capital," says **Donald W. Walls**, senior vice president and managing director of DRI/McGraw-Hill. With regional advantage also getting a boost from governmental policy, world-class universities, access to Asian, Mexican, and Canadian markets, plus a desirable quality-of-life, "clusters of high value-added jobs—in key high-tech industries and the financial and business services—have flourished in the region, contributing to its robust competitiveness."

Safi Qureshey, co-chairman, president and CEO of AST Research, singles out "a dynamic entrepreneurial culture" as the core of the region's muscle. "In the last 15 years, visionary entrepreneurs here in the West built both the information technology and biotechnology industries—industries that will be the drivers of the 21st century."

"For such industries to remain inventive and buoyant," Qureshey argues, "companies must partner with universities. It was cooperation between Stanford University and Hewlett-Packard that eventually spawned Silicon Valley." As AST aggressively pursues product innovation in the computer industry, it is casting its relationship with the University of California, Irvine, on the Stanford-HP model. "This creates value for the university, for our company, and for the region."

REGIONAL LEADERSHIP CHALLENGES

Like the rest of the nation, the West faces some daunting tasks in the years ahead. And those challenges are already front-burner issues for many of the region's CEOs.

Competition between Western states, for example, is a problem that preoccupies **Wilford D. Godbold**, president and CEO of the Zero Corporation. Seeking lower costs and a regulatory environment more welcoming to business, his manufacturing company recently moved two divisions from California to Utah. Two months later, the California Chamber of Commerce asked Godbold to head its Save California Jobs task force.

Between June 1990 and March 1991, California lost 675,000 jobs. Godbold reports that surveys of business leaders

reveal a knot of problems that need immediate, systematic attention to reverse the alarming job hemorrhage. "Job creation is hampered by an out-of-control workers' compensation system, skyrocketing health care costs, and overly lenient liability laws. Compounding these obstacles are high state taxes, a convoluted permits process, and a maze of government regulations."

Save California Jobs is sounding a grassroots wake-up call to state leaders who must now revisit the rules and regulations governing business. "The trick," Godbold cautions, "is to make changes that are good for the state's well-being and, at the same time, stimulate job creation."

"In the region's effort to sustain competitiveness, the pursuit of corporate advantage must not be permitted to degrade the environment," says **Kris McDivitt**, CEO of Patagonia, Inc. "The days of measuring corporate success by high growth and high profit are over," she asserts. "Every drive forward has an equal and opposite drive backward on our natural resources."

Clean air and water, species survival, and open space now command a value that competes with the corporate push for higher profits. McDivitt reports that eight years ago her outdoor clothing company began demonstrating its responsibility to "keep our own nest clean" by curbing its growth from 50-70% a year to 5-10%. "That triggered fundamental changes in how Patagonia does business—in design, manufacturing, and marketing."

A MATTER OF EDUCATION

Another big hurdle to continued regional competitiveness is the education crisis. Reporting that 30% of students in the West fail to graduate from high school and that 20% are illiterate, DRI/McGraw-Hill's **Donald Walls** notes that California—once the nation's leader in graduating high school students—has skidded into 42nd place.

Yet the education problem is even thornier because it is also national. Test scores of US students are near the bottom of the major industrialized nations. "Knowledge, in the sense of new ideas and sophisticated skills, is essential to our economic health," says Governor **Roy Romer** of Colorado. "We know our young people can learn more and can learn faster. Students throughout the industrialized world are demonstrating that."

The bottom line: we need to overhaul our school systems. Governor Romer urges CEOs to "join teachers and parents to develop a consensus about what children need to



"The free trade agreement is essential to the nation's economic health and an effective instrument for showing U.S. support of President Salinas' economic and social liberalization programs."

Thomas B. Kelly, managing director and member of the executive committee of Arthur Andersen





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s the key to
for change."

es R. Boris, chairman,
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learn and at what age they need to learn it." Then, he says, "We need to support creative—and sufficiently financed—learning programs that target world-class goals."

OPENING BORDERS TO FREE TRADE
Motivated in part by the imminent economic unification of Europe, the discussion of an Asian trading bloc, and the trend toward privatization in Eastern Europe and the former Soviet Union, leaders of the US, Mexico, and Canada are now engaged in trilateral negotiations for a North American Free Trade Agreement (NAFTA).

Opening the border to free trade between the US and Mexico will profoundly affect many industries in the West. But **Thomas B. Kelly**, a managing director and member of the executive committee of Arthur Andersen, observes that most executives seem to favor an agreement, but that there is a lack of consensus about NAFTA's ability to deliver more opportunities than liabilities. Kelly agrees with those who view the free trade agreement as essential to the nation's economic health, and an important way to show US support of President Salinas' economic and social liberalization programs.

Still, he asks: "Will NAFTA adversely affect US employment? Reduce illegal immigration? Provide a major new market in Mexico?" These complicated questions, Kelly believes, demand an open and candid national debate.

Championing NAFTA at the *Business Week* Western Roundtable were **Roger Baccigaluppi**, former president and CEO of Blue Diamond Growers, and **Robert Van Dine**, vice chairman of St. Ives Laboratories. Baccigaluppi notes that NAFTA would create the world's largest regional trade area, a market of 360 million people. Mexico, whose economy ranks 10th worldwide, is already the third largest US trading partner.

"Since 1986, US exports to Mexico have nearly tripled—from \$12 to \$33 billion—and this has created 300,000 new US jobs," Baccigaluppi says. "A free trade agreement would lock in those gains and create new market openings for US business."

One company already reaping benefits from Mexican trade reform is St. Ives Laboratories, a medium-sized cosmetics firm. "We began exporting to Mexico in 1990," says Van Dine. "First-year sales totaled almost \$1.4 million. Sales for 1992 are projected to top \$2.8 million, despite the fact that our products cost about 25-30% more than those manufactured locally."

Howard Samuel, president of the Indus-

trial Union Department, AFL-CIO, voiced a different perspective. Insisting that the US shares little more than a 2,000-mile border with Mexico, Samuel categorizes Mexico "as a country where 90% of the people live in poverty and where average worker's wages are less than one-tenth of their US counterparts'." Samuel believes the priority should be to help Mexico gain an equal industrial and economic footing with the US. "Then, as equals, we can negotiate an agreement that preserves US trade law remedies and insures that Mexico doesn't become an export platform for non-NAFTA countries."

MANAGING CORPORATE CHANGE
Chief executives in the Western region—like their peers around the globe—see no end to the accelerating pace of change. Indeed, corporate leaders today regard change as the overarching certainty of business life.

James R. Boris, chairman, president and CEO of Kemper Securities Group, who recently led his firm through a 14-month restructuring and consolidation, says, "The key to major change is to make your employees and your shareholders as comfortable as possible with the *process* of transformation."

"For Kemper," Boris continues, "this meant senior management had to set a clear direction for the organizational change and adhere strictly to the company's objectives." The mission was to align five regional brokerage firms into one strong nationwide operation. Building from its decentralized heritage, the newly consolidated Kemper Securities now uses an inverted pyramid management model.

"Management's job is to *support* the efforts of our investment bankers and brokers on the frontlines. These professionals, in turn, serve the changing needs of *their* clients," says Boris.

PARTNERSHIPS FOR ADVANTAGE
Public-private partnerships have a long history in the Western US. Alliances helped settle the region, build the railroads, irrigate the deserts. **Philip Burgess**, president of the Center for the New West, says, "Today's challenges are driving the growth of new partnerships in the West—public-private, intrastate and interstate, and cross-border."

Increased international competition is the catalyst for some bold new partnerships, for example, between the Port of Los Angeles and the private sector. The Port's executive director, **Ezunial Burts**, says, "For us, this generation of partnerships is different because they are equity partnerships. There are incen-

tives for long-term commitment—minimum annual guarantees and revenue-sharing agreements—on both sides of the bargaining table.”

One such venture is a state-of-the-art container terminal that is the first exclusive-use US facility for a major Japanese shipping firm. “This terminal means jobs for almost 3,000 people and \$250 million annually in industry sales,” says Burts. “It will ultimately benefit our entire regional economy and serve as a public-private partnership model.”

The former Mayor of Phoenix, **Terry Goddard**, sees the collapse of boundaries—city, county and state—as an excellent opportunity for collaboration. “In a time of declining federal and state revenues, cooperation among communities is strategically imperative.”

Goddard also endorses public-private projects. “In Phoenix, we teamed up with the private sector to collect and recycle trash, run landfills, deploy security, and provide computer services,” he says. “Moreover, the future offers vast opportunities for private participation in water service, waste management, roads, and all forms of transportation.”

R. Michael Mondavi, managing director and CEO of Robert Mondavi Winery, describes Opus One, his firm’s cross-border partnership with Chateau Mouton Rothschild in France, as an effort “to produce the world’s greatest wine.” Mondavi emphasizes that the two vintners shared similar goals. “We wanted to learn more about the *art* of winemaking, and they hoped to learn more about the *science*.” By blending the strengths of both companies—and both countries—they cultivated a wine that is now honored worldwide.”

NEW DIRECTIONS FOR HEALTH CARE

Among the West’s business leaders, no disagreement exists about the forecast that the nation’s health care crisis isn’t going away soon. But consensus is hard to find concerning the best course for reform—both in the country and within corporations.

James A. Curtis, chairman and CEO of Milliman & Robertson, reporting on a survey conducted by his firm among participants at the *Business Week* Western Roundtable, confirms that virtually all CEOs believe health care plans cost too much and are now undertaking changes to help cut those costs. New directions include: more employee cost-sharing, changes in insurers or administrators, flexible benefits plans, and reductions in benefits. “Significantly, 64% of the CEOs are willing to provide incentives—including financial ones—to encourage employees to improve their health,” Curtis notes.

There was great divergence among the

CEOs on the issue of a single health care system for the nation. But Curtis stresses that CEOs should take a proactive role in the national health care debate. “Otherwise, the business community will endure a solution it failed to influence.”

Peter Boland, president of Boland Health Care Associates, adds, “CEOs must ask the tough questions about cost containment, about delivery systems, and about the quality of suppliers. You can’t save money without quality. Put simply, we need to forge a health care partnership with our suppliers—not only the insurers but also the hospital and physician groups—because they are the real cost managers.”

At Southern California Edison (SCE), health care costs had been rising by over 20% a year from 1981-88. “So, in 1989, we switched to a managed care plan,” says president **Michael Peevey**. “And we cut our trend rate in half, from a projected 1992 cost of \$162 million to a more manageable \$114 million. In total, we saved \$66 million in 1989-91.”

Peevey explains his company’s strategy: “We created our own network of providers—physicians and hospitals willing to accept the fees we would pay. Through co-payment differentials, we encouraged our employees to use these providers.”

Creative benefit designs like SCE’s are just one of the ways companies can control costs says **Leonard D. Schaeffer**, chairman and CEO of Blue Cross of California. “Companies should also invest in wellness and prevention programs. And they should choose managed care partners with superior records of customer service and quality care.”

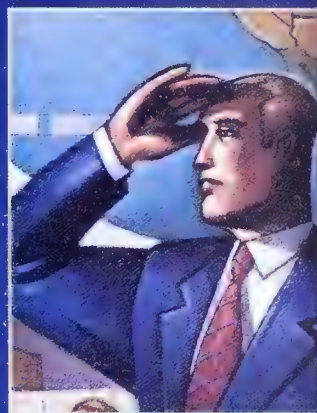
AN ENTERPRISING LEGACY

Despite the tough choices facing the West—and the nation—CEOs at the *Business Week* Western Roundtable expressed confidence about the future. Indeed, **William Agee**, chairman and CEO of Morrison Knudsen Corporation, says, “I am outright bullish about the 1990s.”

Former President **Gerald R. Ford** echoed the optimism. “In my lifetime, Americans won two world wars, overcame the Great Depression, and helped dismantle world communism. These wins weren’t achieved by selling short America’s enterprising spirit.

Surely that spirit will prevail as leaders of the Western region craft solutions to the challenges of today—and tomorrow.” ■

Barbara H. Peters and James Peters are New York-based writers who specialize in corporate communications.



“Unless CEOs take a proactive role in the national health care dialogue, the business community will endure a solution it failed to influence.”

James A. Curtis, chairman and CEO of Milliman & Robertson, a national actuarial and consulting firm



AND BACK, BIG BLUE AND WISH ME LUCK

is setting its PC business loose to give it a better shot at fending off clones and reversing its slide

mes A. Cannavino knows what it takes to succeed in the personal-computer business. A PC maker to be lean, flexible, aggressive, lightning-fast—all the things that companies such as Dell Computer and Compaq Computer are and that Big Blue is not. So Cannavino, general manager of IBM's 1 billion Personal Systems Div., is spending his summer negotiating a deal that he hopes will finally pull the PC business out of its slide.

In September, Cannavino says IBM will spin off a new unit to focus exclusively on developing and manufacturing PC hardware. By cutting PCs loose from the rest of Personal Systems, which also includes workstations and software, including IBM's OS/2 operating system, Cannavino hopes to create an entity that can finally compete with the likes of the world. IBM is still not sure whether it will be a new operating unit or a separate company. "We will have more independence than we have now," Cannavino told BUSINESS WEEK. "Over time, we will have more and more independence." Within a few months, he hints, his Baby Blue may even trade its own stock.

The idea is to create a streamlined organization that can cut prices often, and introduce new products several times a

year, sell through any kind of store, and provide customers with the software they want—even if it doesn't happen to be IBM's. In other words, Cannavino intends to operate like the scrappy PC makers that have done so well at his expense. Those companies never have to worry about anything except PC hardware. And they don't have to deal with the IBM bureaucracy, which has often kept Personal Systems from responding quickly to its competitors.

SCREECHING HALT. The new group will pick up the pace immediately in September, announcing a new line of low-priced PCs. All year, IBM has been on the losing end of an industry price war. Even after it countered Compaq's price cuts in June, its prices still remain as much as one-third higher (table). Worse, by telegraphing the new fall lineup, the company has curbed sales of current models. Matt Fitzsimmons, president of Compu-

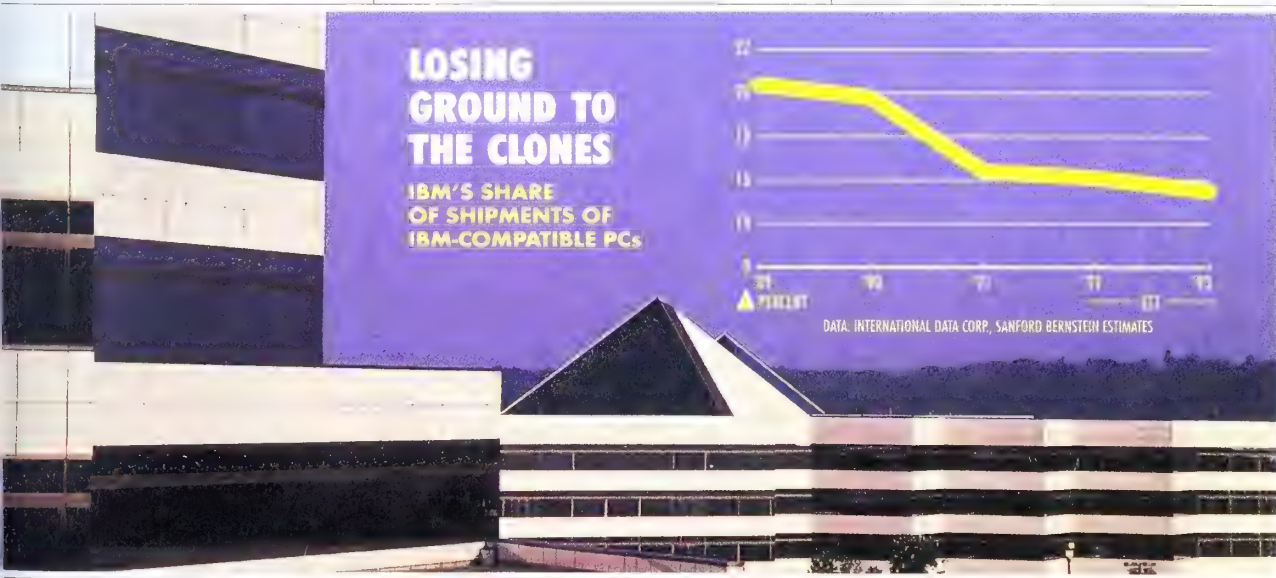


terLand in White Plains, N.Y., says his Compaq sales are up about 30% this quarter, while IBM's have come to a screeching halt.

Cannavino says autonomy will allow the PC division to react much faster. But the process of gaining independence has been painfully slow. IBM executives continue to hash out how exactly the new unit will work. It is still not known, for example, what the organizational structure will be, who will run it, how products will be distributed, and what will be left in Personal Systems. Chairman John F. Akers is close-lipped about the overhaul. "Cannavino

will be prepared to talk publicly about all that come September," says Akers. Cannavino jokes: "Did he say what year?"

Indeed, the lengthy process of revamping the PC business is an indication of how far IBM has to go to free its operating divisions from headquarters



bureaucracy. That was the goal of Akers' reorganization last December. But insiders say the old ways persist. "It's possible that they can pull it off, but they are probably spending more time arguing over what day to make the announcement," says one former IBMer. Cannavino acknowledges that decision-making remains cumbersome. "If you... cover six to seven organizations, just to get a consensus on something can take a month by the time you make all the appointments," he says.

How far will the independence movement go? Rumors have been swirling in the computer industry for weeks that IBM would spin off the entire Personal

EVEN AFTER PRICE CUTS, IBM COSTS MORE

	COMPAQ	IBM	COMPAQ	IBM	COMPAQ	IBM
Model	486DX2/50M	90-0LF	286/251	57-055	PROLINEA 3/25s*	35-4B2*
Processor	486-DX2	486-DX2	386-25 Mhz	386 SLC	386sx	386sx
Memory	8 MB	8 MB	4 MB	4 MB	2 MB	2 MB
Hard drive	340 MB	400 MB	80 MB	80 MB	80 MB	40 MB
Street price	\$4,469	\$5,932	\$1,779	\$2,238	\$1,474	\$1,701
	IBM 33% higher		IBM 26% higher		IBM 15% higher	

DATA: INACOM CORP.

* PLUS COLOR MONITOR

System division into a publicly traded company. Instead, the parts are being sliced much finer and investors may be offered shares in a far smaller PC company. "There isn't anything we are doing that prohibits that from happening," says Cannavino. "In fact, it probably enables that." He quickly notes that Secu-

rities & Exchange Commission rules prevent IBM from issuing stock in any spin-off unit. It has three years of audited results. In other words, don't expect Baby Blue stock trading before 1995.

For now, the key question is how the overhaul will help. Once more get PC market quickly and the right price. Deal-

customers, and IBM watchers are virtually united in the view that PC distribution should be taken away from the National Distribution Div. (NDD) and given to a group that makes the machines. The group, which is responsible for selling PCs, software to dealers, is part of the massive North American marketing-and-

FUMBLING THE FIRST DOWN OF THE NEW OS/2

It wasn't exactly a shining example of teamwork. In late March, three months behind schedule, a group of 400 IBM programmers in Boca Raton, Fla., finished the all-important Version 2 of OS/2, a personal-computer operating system aimed at replacing the aging MS-DOS. Counting heavily on the new OS/2 to blunt the success of Microsoft Corp.'s Windows program, which enhances MS-DOS, IBM had pumped some \$40 million into ads and promotions. Finally, the 2 million-line program was ready.

Too bad IBM's distribution folks weren't. While some big corporate buyers got copies electronically via phone lines, ordinary PC owners and small businesses couldn't get OS/2 2.0. "Software dealers were dry," says Rock Blanco, computer chief at Garber Travel Service Inc. in Boston. He waited six weeks for copies ordered from IBM in May. Says Mike Kogan, a chief architect of OS/2 who left IBM in July: "The distribution was pathetic."

TOO SMALL, TOO FEW. Lucy Baney, vice-president for OS/2 market development, acknowledges the snafu. IBM's National Distribution Div., charged with getting goods to customers and dealers, had only about 200,000 copies, she says. And almost all were on 3½-inch disks, even though many buyers wanted

5¼-inch. It wasn't until late May that IBM began meeting demand.

Such a problem shouldn't recur once IBM finishes reorganizing its Personal Systems Div. Baney says her software unit will forge stronger ties with NDD. While OS/2 stumbled, Windows leaped further ahead. Now, there are well over 10 million copies installed. "Microsoft is blitzing the storefronts," says John O. Dunkle, president of Workgroup Technologies Inc., a Hampton

(N.H.) consultant. "If IBM undertakes the same merchandising effort, how successful could it have been?"

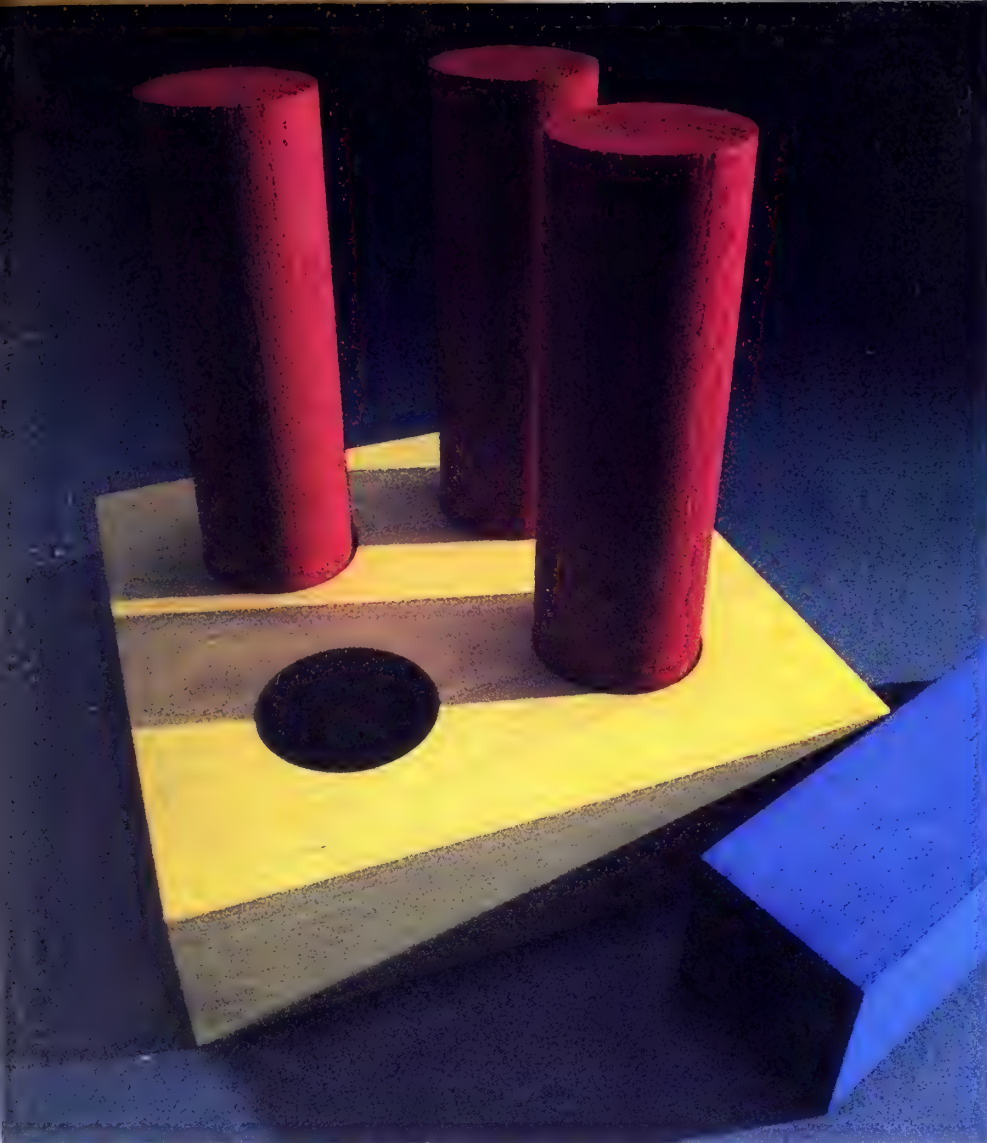
That's hard to say. But IBM claims it's recovering from the shaky start. It is now planning a mid-August event marking the millionth copy of OS/2 sold. That includes at least 200,000 sold free to users of prior versions, plus thousands shipped with IBM PS/2. Still, at this rate, IBM may meet the end of analysts' projections for 1993—about 2 million copies.

That's even more remarkable considering IBM's other missteps. The first shipments included minor bugs that IBM is now fixing. And expensive ads aimed at individuals who are snapping up Windows actually "appealed more to the large corporate accounts" that already knew about OS/2, says Baney. This fall, IBM plans to fix that with its first TV spots for OS/2 in the U.S. And new print ads will be aimed directly at corporate buyers.

Microsoft, however, is already on to the next match. It's preparing for an early-1993 release of Windows New Technology, which should equal many of OS/2's benefits, such as running many applications at once without crashing. As Microsoft starts pushing NT, IBM had better make sure all its players are following the same game plan. *By Evan I. Schwartz in New York*



DULL DEBUT: EARLY ADS LEFT CONSUMERS UNMOVED



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VICES division and does not report to Cannavino. The structure is costly and cumbersome, making it difficult to coordinate pricing and product rollouts.

"I think they desperately need to get the sales-and-marketing group under one umbrella," says Bill Fairfield, president of Omaha-based InaComp, which runs two computer-store chains. His company's dealings with IBM's salespeople, he says, "have certainly not been as smooth as certain other competitors'." Again, Akers' response is short on specifics. "There's a lot of work being done to make the distribution system more efficient," he says.

GLARING HOLES. Cannavino insists that dramatic changes are afoot. But he, too, is circumspect about what they will be. "Everyone is so sensitive," he explains. Cannavino hints that NDD will not be broken up but will work more closely with PC developers. "The team we know as NDD will pick up more and more functions," he says.

Analysts welcome anything that fixes IBM's immediate problem: the wrong products at the wrong prices. Take notebook PCs. IBM didn't introduce one until March, 2½ years after Compaq. The delay left IBM with only a 3.6% share of the fast-growing market, according to International Data Corp. Compaq has 10.1%.

And IBM still has some glaring holes in its portfolio. Pete Reilly, head of U.S. marketing for Personal Systems, says he'll plug "the obvious gaps" this fall. A series of machines for consumers and small business will be called the Value Line and will be priced at or below comparable Compaq offerings, says analyst William Milton of Brown Brothers Hariman & Co. In all, IBM is expected to introduce 11 new machines.

Lower prices and new models might just allow IBM to hold on to its share of the IBM-compatible PC market, says Sanford C. Bernstein analyst Richard Schutte (chart). It's now 16.4%, down from 20.4% in 1989. He notes that IBM wouldn't even be doing this well without the bounce it got when it finally entered the hot notebook market. Nevertheless, he predicts a drop to 15% next year.

Cannavino isn't trying to downplay IBM's problems. "I'm not saying it isn't going to be a difficult year or two: Competition is fierce. Price wars are intense. The world's economies are flat to mediocre. The industry is not growing very rapidly. Let me tell you, it's a very difficult time." Still, Cannavino insists that IBM has a "very bright future" in personal computers. After all, it's still the world's largest supplier. And now, it's getting in shape to compete.

By Catherine Arst in New York, with Mark Lough in Washington and bureau reports

Science & Technology

MEDICINE

PUBLIC HEALTH IS IN A BAD WAY

The U.S. has neglected prevention—and epidemics are spreading

Julio Bellber doesn't need anyone to tell him that there's a crisis in public health. It's 10:45 a.m. at the William F. Ryan Health Center in upper Manhattan, and Bellber, the executive director, has just closed the doors to the walk-in clinic. The reason: Nineteen patients with complaints ranging from asthma attacks to fevers have jammed into the waiting room to see the one doctor who staffs that facility. It's like this most days, says Bellber, whose federally funded center provides primary care for 35,000 to 40,000 urban poor, including 300 who are HIV-positive. It averages 170,000 visits a year, and 45% of clients have no insurance. "We have a capacity issue here," he says. "We book appointments three months in advance."

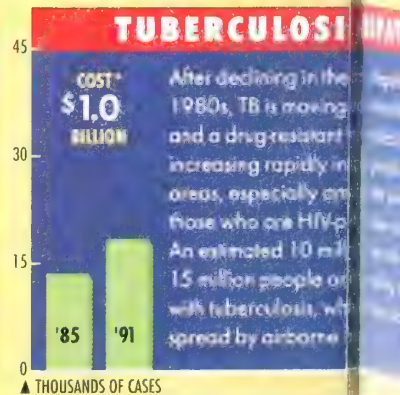
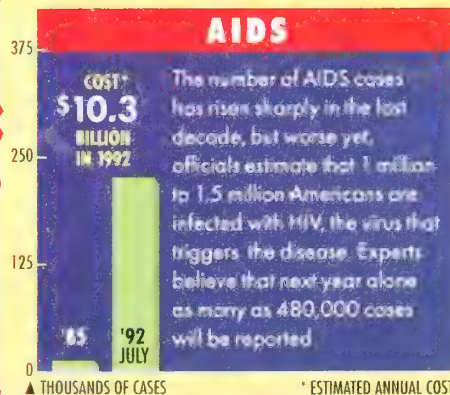
Bellber's overcrowded clinic is just one result of what many experts believe is a crisis in public health in this country. Decades after defeating the scourges of polio and smallpox, the U.S. now finds itself battling such infectious diseases as AIDS, tuberculosis, measles, and syphilis. And according to the U.S. Public Health Service, one out of eight Americans has inadequate access to primary care, a key factor in preventing disease. In 1988, the National Academy of Sciences' Institute of Medicine charged that the public-health system was in "disarray." The situation is no better now. "We're dra-

matically underinvesting in prevention," says Dr. William L. Roper, director of the Centers for Disease Control.

While politicians debate funding, argue over strategies, several epidemics are racing out of control. As many as 10 million people are infected with the virus that causes AIDS, and by 1993 that number is estimated to reach 15 million. Old diseases, believed defeated just five years ago, are back with a vengeance. Tuberculosis cases are up 40% in New York City, and in some states 40% of those tested are of a variety that is resistant to most drugs and kills 70% of its victims in just a few months. And the estimates that nearly half the country's two-year-olds are not adequately immunized against childhood diseases. "There's been a complete erosion of the public-health system," says Bailus Roper Jr., dean of public health at the University of Oklahoma Health Sciences Center. "We're going to see a major resurgence of many infectious diseases, and we don't have resources to deal with them."

COMPLACENCY. The costs of this crisis are huge. Preventable diseases add \$100 billion to the groaning \$700 billion national health care burden. Caring for AIDS patients alone will require \$10.3 billion this year and will hit \$15.2 billion by 1995, estimates Fred J. Hellinger, director of the cost and financing division

WHERE THE CRISIS IN PUBLIC HEALTH IS A



ency for Health Care Policy
earch. As the health care
calates, business feels the
as it shoulders the rising
of insurance. "It's a moral
business concern," says Dr.
G. Rosenfield, dean of the
of Public Health at Colum-
iversity.

many decades, an intricate
federal and local agencies
protected public health
h such efforts as keeping
supplies safe, immunizing
n, and tracking new epi-
The current crisis is the
of a confluence of factors.
e, the 1980s were a time
medicine focused on the in-
al, with expensive treat-
such as organ transplants
ther high-tech procedures
the limelight. And as vacci-
and prevention programs
succeeding, the country got
cent about public health,
Roper. The CDC—which
disease and disperses funds
e and local agencies—saw
get limp along until 1988,
t jumped from \$539 million
million after a major infu-
funding for AIDS. Such pro-
as childhood vaccinations
vention of tuberculosis and
y transmitted diseases suffered.
same time, the country was ex-
g a growing drug crisis, AIDS, and
in the number of people with no
to health care.

omic pressures at the state and
level didn't help. "Health services
seemed vital were now being seen
essential," says Walker. Federal
to state public-health agencies es-
ly remained flat from 1979 to
So states struggling with their
minished budgets began nipping
tacking public-health dollars—af-
everything from antismoking
gns to immunization programs.



EXAMINING A CHILD AT THE RYAN HEALTH
CENTER IN MANHATTAN: CLIENTS OFTEN
WAIT THREE MONTHS FOR AN APPOINTMENT

"The states are deciding between restaurant inspectors and prenatal care," says George K. Degnon, executive vice-president of the Association of State & Territorial Health Officials (ASTHO), an organization of public-health officers.

The clash between local officials and federal authorities is starkly clear. In a 1990 report called *Healthy People 2000: National Health Promotion and Disease Prevention Objectives*, Health & Human Services Secretary Dr. Louis W. Sullivan set out a series of goals for improving public health. In response, ASTHO members took Sullivan's list and figured how much money they would

need to implement the screening, immunization, education, and inherent administrative costs called for by his plan. They came up with a figure of \$1.7 billion on top of the \$3.5 billion they received in 1989 from the feds.

WAITING LINES. Strategies for attacking public-health problems are well-known—and can bring dramatic results. Take sexually transmitted diseases, or STDs. Including AIDS, there are 12 million cases per year in the U.S. The medical costs associated with these diseases are upwards of \$7 billion a year, and two-thirds of all cases occur in people under 25. Yet except for viral infections such as AIDS or herpes, most are easily treatable with antibiotics—if detected early enough. That's a problem, says Dr. King K. Holmes, professor of medicine and director of the University of Washington's Center for AIDS and STDs. Many public clinics are swamped with people wanting testing and counseling for HIV. They haven't expanded clinical services and, like the Ryan center, they can fill up at 9:30 or 10 in morning. Patients have to wait an average of four hours to be seen.

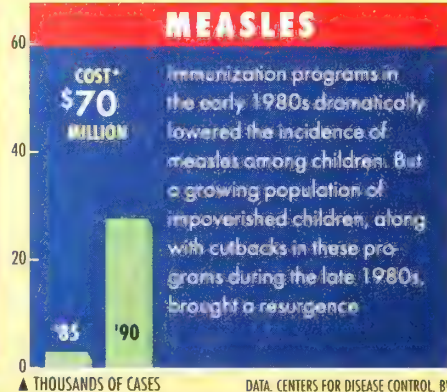
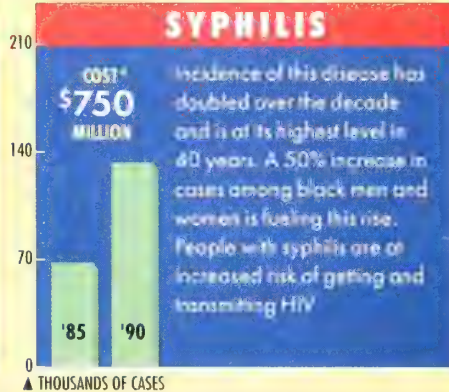
"We have the federal government thinking of innovative ways of finding people with STDs," such as partner-notification programs, says Holmes, "but we're turning these people away when they do show up at clinics."

Chlamydia, a bacterial infection that often produces no symptoms in men or women, has surpassed both syphilis and gonorrhea in number of cases and racks up \$2.2 billion in medical costs each year. It is a major cause of pelvic inflammatory disease, infertility, and other reproductive problems. But, says Holmes, even though there is a test for chlamydia, at \$3.50 it is too expensive to be used routinely in public clinics. "Here's

ast decade, there has been a surge in controllable, communicable diseases. The costs strain an already overburdened health care system

HEPATITIS B

Hepatitis B is a sexually transmitted disease that infects the livers of 300,000 people each year. A vaccine that prevents the disease has been available for a decade, but only 1% of the 28 million young adults at risk for HVB have received it



DATA: CENTERS FOR DISEASE CONTROL, BW

the most common, curable STD, and yet if you go to an STD clinic in New York City, they don't test for it," he says.

A similar situation exists for hepatitis B, a potentially deadly virus that infects the liver. More than 50% of all cases result from sexual intercourse, and the disease is spreading rapidly among heterosexual youth. The chance that an urban youth will get hepatitis B after puberty is 25% to 30%, says Holmes. A vaccine has been available since 1981 for the disease but is considered too expensive to be used in adolescent programs.

short," says Dr. David E. Rogers, vice-chairman of the National Commission on AIDS. "Issues of morality prevent us from tough, explicit educational programs for teenagers and drug users."

In the end, though, access to primary care is probably the best way to fight public-health problems. Facilities that focus on health education and prevention of disease, such as the Ryan Center in Manhattan, are a good way of achieving that. There are 640 of these community centers across the U.S., funded by direct grants from the Public Health Ser-

such as the University of Minnesota and the University of Tennessee offer tuition breaks or other perks for students who agree to practice primary-care medicine in underserved areas. Dr. David Baer, a family practitioner in rural Bedford, Pa.—a town of 4,000—took advantage of a program at Jefferson Medical College in Philadelphia that sets aside 10% of admissions for urban and rural practitioners. Baer, who grew up on a farm in Bedford, agreed to return to his hometown to practice.

Still, experts believe there must be a fundamental shift in health care. That means changing the focus from what Roper calls "very high-tech curative medicine," which can add a few weeks to a dying person's life, to medicine that concentrates on maintaining the health of the population. The economic benefits of this shift are clear. The CDC estimates that in the case of measles, for example, \$1 spent on vaccination saves \$14 in medical costs. The same is true for tuberculosis. The cost of a typical six-month course of drugs to treat a latent infection is \$850, while hospitalization and treatment of a victim of the new, multidrug-resistant variety can climb upwards of \$100,000.

PET PROJECT. After years of tightening budgets, the Administration has decided to act against some of the most pressing problems. Sullivan has made preventive pet project. And at Bush's request, Congress upped the CDC's funding for next year from \$1.3 billion to \$1.5 billion—a real feat in tight budget times, says Roper. Bush requested a 128% increase in the CDC's \$15.3 million tuberculosis program and a 17.7% increase in its \$297 million immunization program.

But this is just a start, says Georgia's Rosenfield, adding that funding was cut so much that "it will be difficult to solve these problems." The overwhelming human and economic toll of communicable diseases is such that many others recommend enlisting the power of organized government response. Public health that is mobilized to maintain national security. The result is the same: "If we do preventive medicine, public health right, then nothing happens, and it's very boring," says June E. Osborn, dean of the School of Public Health at the University of Michigan and chairman of the National Commission on AIDS. And, she adds, we should all be praying for boredom.

By Naomi Freundlich, with Gwen Kelly, in New York and John C. Washington



A SHIFT TOWARD PRIMARY CARE: IN RETURN FOR PREFERENTIAL ADMISSION TO MEDICAL SCHOOL, DR. DAVID BAER AGREED TO PRACTICE FAMILY MEDICINE IN RURAL BEDFORD COUNTY, PA., WHERE HE GREW UP

Holmes believes simple, cheap diagnostic tests could be part of the answer for sexually transmitted diseases. He cites a successful program to prevent chlamydia in the Pacific Northwest. For five years, 170 family-planning clinics routinely screened women for chlamydia, reducing the cost of the test through bulk purchasing. The result was a reduction in the prevalence of this disease from 10% to 5% in clinic patients.

'TRAGICALLY SHORT.' Another effective tool is education—although it's a political mine field. As AIDS and other sexually transmitted diseases continue to spread among teens, officials are arguing over how explicit educational material should be. And even as research shows that needle-exchange programs help prevent the spread of HIV among drug users—the main link to the heterosexual world—officials try to block these efforts as blows to the nation's war on drugs. "We've fallen tragically

vice that also serve migrant and homeless populations. State and local governments fund an additional 3,000 public-health clinics. But a 16% increase in patient load last year has made these centers unable to meet demand, says Alice M. Jackson, assistant director for policy research and analysis at the National Association of Community Health Centers. A recent survey found that 8% of rural children and 18% of urban children must wait at least three weeks for a visit. And some 2% of all centers must turn away all new children. The top problem, says Jackson: "We don't have enough doctors to take care of patients."

Citing low pay and low prestige, 75% of medical school graduates are choosing specialties over primary care. In rural areas, one-third of the population has no access to primary care. And in major cities, there has been a 45% drop over the past few decades in the number of family physicians. Some medical schools,

Developments to Watch

BY GWENDOLYN KELLY

SORS TO TELL YOU W SWEET IT IS



If scientists from Purdue University have it their way, sour grapes may soon be a thing of the past. By adapting and simplifying the medical technology known as magnetic resonance imaging (MRI), they have developed a fruit-ripeness sensor that may benefit growers, food processors, and consumers. Their portable machine uses magnetic

to detect the sugar level in fruits and vegetables—which ally the best indication of ripeness.

due engineer Gary Krutz foresees fruits and veggies ng “sell-by” stickers similar to those on dairy products. an estimated 20% of all produce is thrown away because rripeness, the sensor could reduce waste by helping rs and grocers determine the optimum time for harvest- d selling produce. Researchers plan to test the \$20,000 ne at an Indiana supermarket within a year—and to p a similar instrument for gauging the fat in foods.

N, FILING INSURANCE CLAIMS N'T TRY ONE'S PATIENTS

ndling insurance claims can be a pain for consumers and hysicians alike. That may change. The insurance indus- backing a new interactive computer network that will surers, doctors, and hospitals. The Health Care Informa- twork (HCIN) will provide on-line electronic access to ation on insurance eligibility, specialist referrals, autho- n for treatment, and other data on a patient's account. ulti- mate goal is a paperless transaction—similar to that automatic teller machine. “We’re trying to make it -free for both the patient and the physician, while reduc- e administrative cost of health care,” says Kenneth J. nell, president of National Electronic Information Corp. in Secaucus, N. J., an insurance carrier-owned company. s setting up HCIN as a joint venture with PCS Inc., a iary of McKesson Corp. Initially, HCIN will not provide e access to patients’ medical histories. That won’t happen here are encryption standards for safeguarding electron- ss to such confidential information.

ID-SHEAR WARNING GEAR WILL KE THE SKY A SAFER PLACE

ie of an airline pilot's worst nightmares is wind shear. This deadly weather phenomenon occurs when a region rapidly cools, becoming heavy enough to plummet earth- like a runaway elevator. When the downdraft nears the d, the wind spreads out in all directions. A plane flying ne of these “microbursts” encounters—in rapid succes- a strong head wind, a powerful downdraft, and a dan- s tail wind. The combination has been enough to smash s of aircraft into the ground, killing hundreds of people.

Now, scientists are close to perfecting high-tech airborne warning systems. Working with the Federal Aviation Adminis- tration and companies such as Lockheed Corp. and Rockwell International Corp., NASA researchers equipped a Boeing 737 with three different instruments for spotting wind shear— radar that picks up speeding raindrops, a laser that spies unusually fast-moving dust particles, and an infrared detector that looks for sudden temperature changes.

In late July, the researchers flew the test plane through up to 20 microbursts near Denver's Stapleton International Air- port. In most cases, says Michael S. Lewis, deputy manager of NASA's wind-shear program, the instruments were able to detect microbursts 25 to 40 seconds before the plane encoun- tered them, ample time for evasive maneuvers. The FAA is requiring all airliners to have such devices by the end of 1995.

PLASTIC THAT DISAPPEARS IN THE DARK

Biodegradable plastics got a bad name when consumers realized that the materials often required sunlight to dis- appear. Now, there's a plastic that will degrade in landfills. Produced by London-based Imperial Chemical Industries, the Biopol resin is a natural polymer made by bacteria that digest sugar. It is so similar to petroleum-based polymers that it can be used in existing packaging production equipment with only minor modifications. But when the resin encounters common bacteria found in water and soils, it decomposes, leaving car- bon dioxide, water, and a small amount of biological material.

These qualities carry a hefty price: Andrew T. Berlin, presi- dent of Chicago's Berlin Packaging Corp., the sole U.S. dis- tributor of rigid packaging made using Biopol, says the whole- sale cost of a shampoo bottle will be as much as 43¢, far more than a 7¢ conventional plastic one. But Berlin expects the cost to drop up to 40% in the next 18 months. A line of salon shampoos marketed by Brocato International of Baton Rouge, La., will be the first commercial application in the U.S.

NEW HOPE FOR THE HAIR-IMPAIRED

Another baldness remedy may be on the horizon. Called Trico- min, it is a peptide-cop- per combination discov- ered by ProCyte, a Kirkland (Wash.) biopharmaceutical company that focuses on tissue repair. ProCyte found that Tricomin caused thick hair growth in mice. The company test- ed 18 balding men in France, where the regu- latory process is quicker. Of those getting the strongest dose, 83% grew thicker hair than they had before, with no apparent side effects. A group using a placebo showed no improvement.

ProCyte CEO Joseph Ashley says Tricomin is derived from a naturally occurring compound that triggers the body's tissue-repair mechanism. The remedy won't be approved and avail- able here for at least six years, he says. ProCyte hopes to offer a Tricomin shampoo, targeting 50 million Americans with thinning hair. Upjohn Co.'s Rogaine, or minoxidil, is the only hair-growth drug approved for use in the U.S.



IS BUYING A BALL CLUB A FOOL'S GAME?

Fay Vincent might say yes. But the Astros and Tigers sold for plenty

To hear the lords of baseball tell it, this is a lousy time to own a team. With player salaries still rising and TV revenues headed for a fall, "baseball is poised for a catastrophe, and it might not be far off," Major League Baseball Commissioner Fay Vincent warned in 1991. Vincent hasn't changed his tune since then, and doomsday is presumably drawing ever closer. Ergo, you would have to be nuts to buy a major league franchise today.

could be on a collision course with financial hard times," says Stephen Schott, former chief operating officer of the Cincinnati Reds and now an investment banker at Dean Witter Reynolds Inc. in Cincinnati. Adds former Baseball Commissioner Bowie Kuhn, who now runs Sports Franchises Inc., an adviser to sports investors: "There's uncertainty over the labor-management situation and the national broadcast contract."

For a buyer who can afford to be pa-

McLane values the Astros at \$90 million, according to Louis Susman, the Sales Brothers Inc. managing director who advised McMullen on the sale. The rest of the price covers the club's extremely favorable lease with Harris County, one of the Houston Astrodome.

That lease awards McLane all the million or so in luxury-box revenues generated at the stadium. In addition, a new owner can expect some \$24 million in local and national TV money. Altogether, McLane will benefit simply by not being McMullen, a New Jersey native who gutted the team of its stars, notably native Texan Nolan Ryan. Right now the team's average home attendance is an anemic 16,500 out of 54,816 available seats.

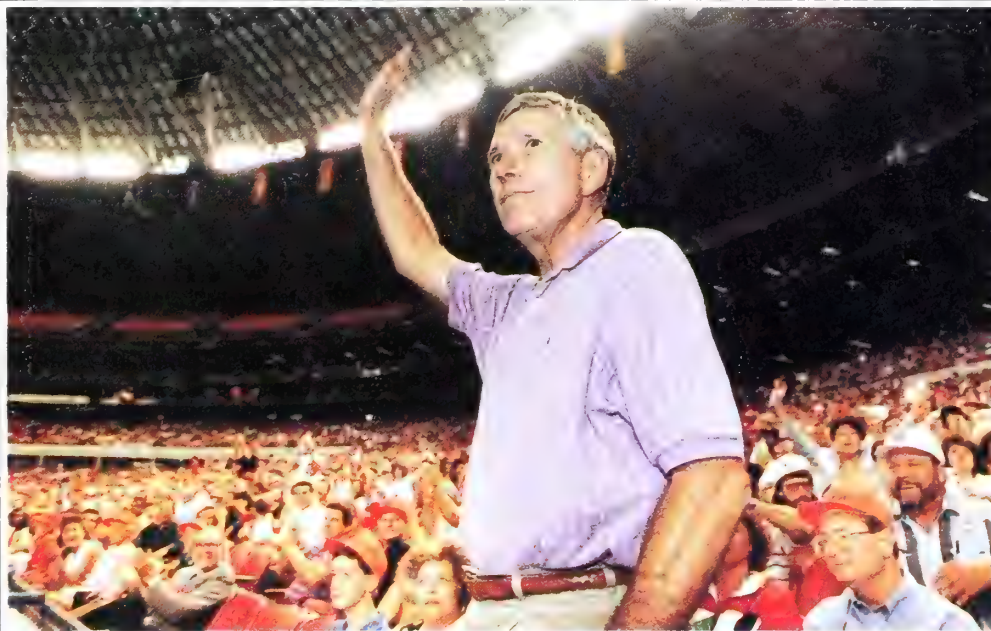
Like McLane, Ilitch will share in the revenues that Major League Baseball reaps each year by licensing T-shirts, hats, and such. Andrew Zimbalist, a Smith College economics professor and author of *Baseball and the Business of Sports*, due out in September, conservatively estimates that MLB revenues at \$102 million in 1992. **RUNDOWN PARK.** But Ilitch has bought some headaches. He inherits from Monaghan a bitter fight over Tiger Stadium, where the rundown state helped lower the Tigers' price, say baseball sources. Negotiations between Monaghan, who paid \$53 million for the team in 1983, and the city of Detroit over a new stadium broke down in 1989.

While Ilitch, a Detroit native, will probably enjoy warm relations with city officials, a new stadium is still years away. But even in an old park, Ilitch has a good chance to put the struggling Tigers back on the right track. He turned around the once-woeful Detroit Tigers, the Wings of the National Hockey League within four years of purchasing them in 1982. The resurgent Wings now sell out most home games.

McMullen, who led a group that paid \$16 million for the Astros in 1979, sold because he wasn't having any more. But in announcing the sale, he made a bullish case for baseball. "Would I have made a lot more if I stayed in here for another four or five years?" he asked. "The answer is yes."

Vincent will soon have to negotiate with the players' union and the TV networks, so he has good reasons to keep his mouth shut about the national pastime. But he's going to explain why teams are changing hands at such a profit?

By Harris Collingwood in New York



McLANE: HIS DEAL GIVES HIM ALL OF THE \$5 MILLION IN LUXURY-BOX REVENUES AT THE ASTRODOME

Funny, Drayton McLane and Mike Ilitch don't look crazy.

McLane, a Temple (Tex.) grocery tycoon, announced on July 24 he would buy the Houston Astros of the National League from John J. McMullen for \$115 million. Four days later, word leaked out that Ilitch, owner of pizza franchiser Little Caesar Enterprises Inc., would take off the American League's Detroit Tigers from the hands of Domino's Pizza Inc. owner Tom Monaghan for \$80 million to \$85 million. Neither buyer is known for throwing scintillating amounts of cash at unprofitable enterprises.

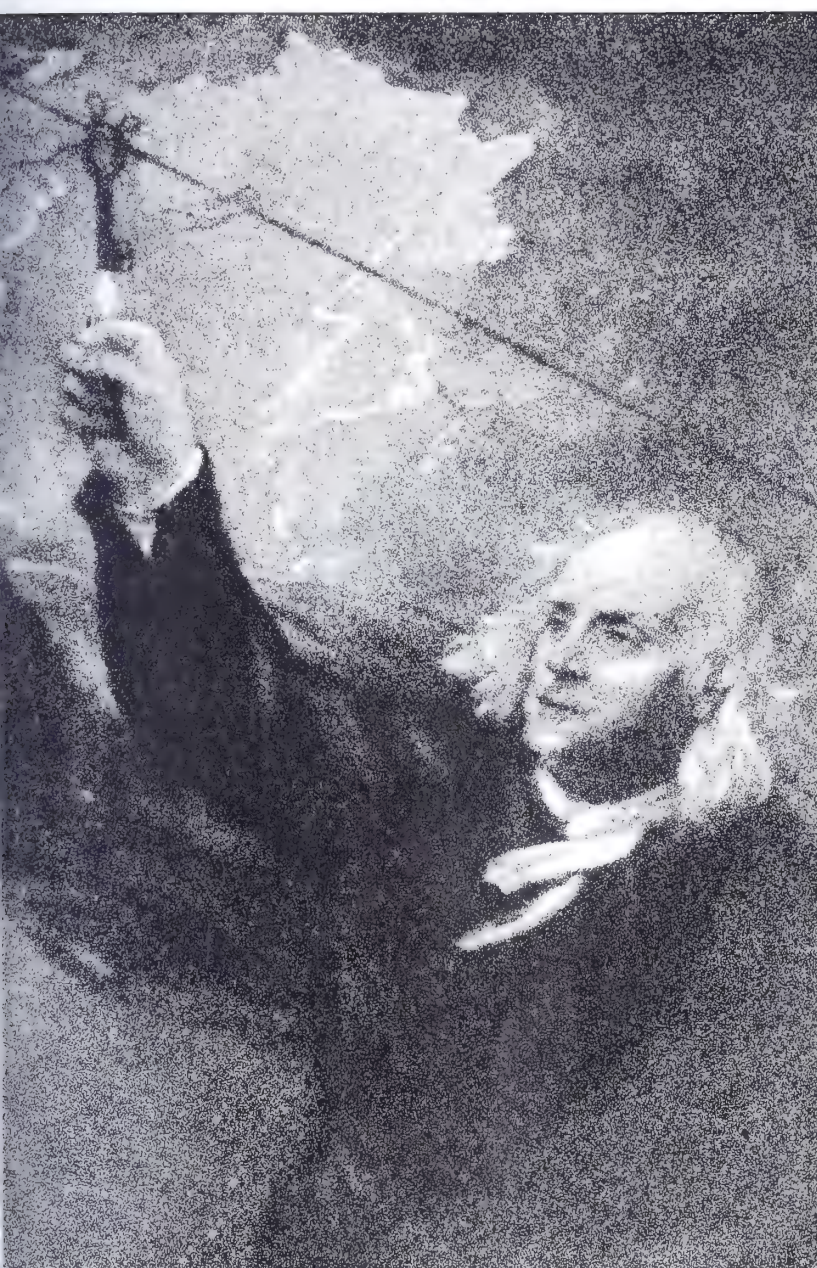
Granted, baseball has serious long-term problems. "Major League Baseball

isn't, though, baseball is still a good investment. Teams historically have appreciated handsomely over time, and never more so than in the free-agent era. Yes, expenses in the age of the \$7 million-a-year ballplayer are high, but thanks to luxury boxes, cable TV, and licensed merchandise—not to mention strong attendance—so are revenues. That should be good news to the owners of teams now up for sale, including Bob Lurie of the San Francisco Giants, Tom Werner of the San Diego Padres, and Eli Jacobs of the Baltimore Orioles.

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LAWYERS START TO STOP THE CLOCK

Some are now forgoing pay-by-the-hour for negotiated fees

There are few professions where the adage "time is money" is more apt than the legal business. In the 1980s, law firms prospered mightily by charging hourly billing rates of as much as \$450 to their big corporate clients. But now, corporations—battered by the recession and buoyed by a lawyer glut—are wrangling major concessions from their clock-obsessed lawyers.

The newest weapon is "value billing." Instead of charging by the hour, companies and lawyers agree at the outset to a fixed fee based on expected costs and the top amount the client is willing to spend. Proponents will try to convert skeptical American Bar Assn. members in mid-August, when 13,500 attorneys meet in San Francisco at their annual convention.

'WRONG DIRECTION.' Lawyers are scoffing. Many are ailing from the business downturn and a more competitive market. Ditching hourly rates could also drain profits. Others say quality will suffer. "I wonder if our corporate clients will understand the new incentives when they consider filing malpractice suits against us," says James W. Jones, managing partner of Arnold & Porter in Washington.

A booster of the concept is Hartford-based Aetna Life & Casualty Co. Last year, Aetna paid \$400 million to about 1,200 law firms—when its total profit was only \$505 million. At the ABA meeting, Zoe Baird, Aetna's general counsel, will unveil a new Brookings Institution study commissioned by Aetna. It shows that hourly billing leads to needless and expensive legal work. The system "pushes economic incentives in the wrong direction," Baird says. Lawyers may be tempted to stretch out their time rather than aim for efficiency or results.

Companies are clamping down in other ways, such as calling in auditors (table). But value billing is the most radical tactic and may offer the longest-lasting solution.

The big law firms are most likely to resist sweeping changes. They made mil-

don the billable hour, the mega-firms may soon be dinosaurs, but associates will become costly but rather than profit centers.

Upstart law firms, hungry for more willing to experiment. I based Bickel & Brewer handles thirds of its cases by value billing. William A. Brewer III, who co-founded the 60-attorney firm in 1984, says must look for such techniques to stay in business: "We count ourselves lucky to be alive when the supply and demand longer favors lawyers but clients."

FINAL PAYMENTS. Last year, B&B earned record profits, contrary to expectation that value billing means less income. Though the firm had charged discounted fixed fees, its clients had agreed to

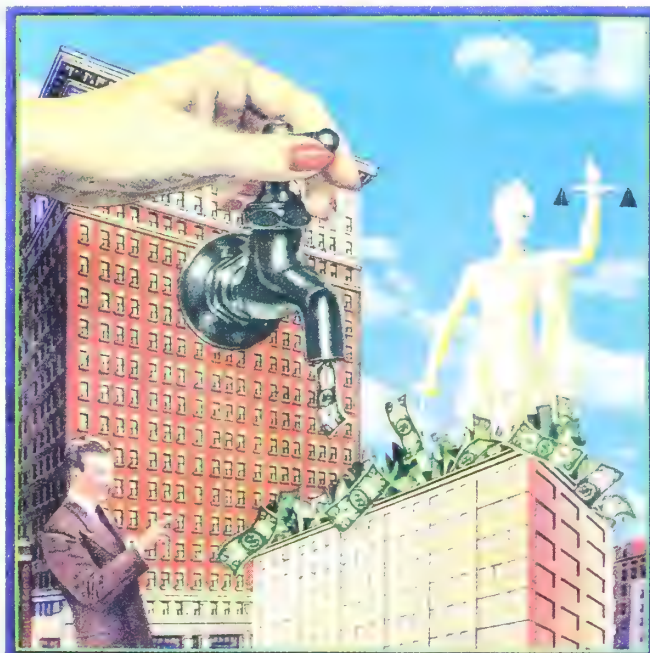
a percentage of any award. These bonuses brought in extra cash. One typical arrangement involves Dallas-based client Prentiss Properties. After racking up \$600,000 in legal fees in a real estate case, it agreed to pay the \$150,000 and legal costs to share some of the final award above a certain amount.

The implications go beyond the income statements of law firms. Without the incentive to roll up hours, lawyers could be more aggressive about settling and more efficient. Chicago-based Wisniewski & Strawn, which does 25% of its work on a fixed-billing basis, is using technology to cut people-hours. It uses form documents and data bases on prior results so that lawyers don't repeat efforts. The firm aims for a 20% savings in billable

Says Managing Partner Gary L. Schild: "Four people to do what we have kept five busy."

Management practices could change as well. Bickel & Brewer no longer partners on a lockstep scale—with bonuses tied to hours billed—but sets salaries by reviewing past performance. And it has stopped automatically hiring a number of associates and without projecting next year's caseload. While such techniques may seem elementary to Corporate America, the revolutionary to lawyers. Bickel law firms that don't adapt to a clockless era may find their time has passed.

By Catherine Yeager
Washington



lions in the 1980s by hiring hordes of associates every year. The bigger the ratio of associates to partner, the more profits the firms could generate from work by associates billed at a higher hourly rate than their salaries. But if corporations push their lawyers to abandon

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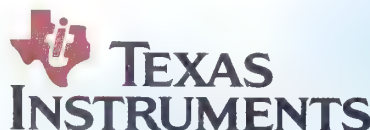
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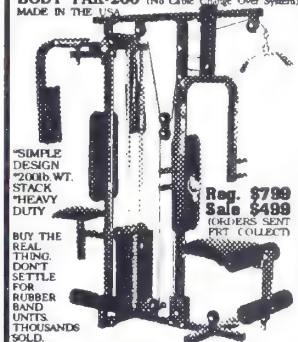
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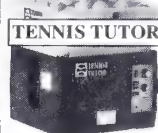
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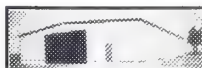
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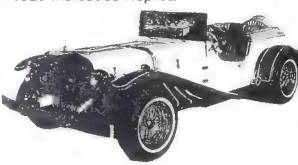
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A HOME OFFICE THAT'S EASIER ON THE EYES—AND THE BACK

Ergonomics—the science of how people interact with their work environment—is becoming more than a buzzword as evidence mounts that desk jobs aren't as benign as they once seemed. Many ergonomists believe tailoring the office to human physiology can improve productivity—and the chances of continued health. You might want to apply some of their lessons to your home office. Don't worry, you needn't start redecorating: There are many ways to retrofit your existing office to make it more ergonomic.

Many ergonomists say the most important item in your office—and one place not to skimp—is a decent chair. A good ergonomic chair lets you sit with your thighs parallel to the floor and your feet flat on it. The seat should be horizontal but slope away at the forward end so there are no sharp edges cutting into the backs of your knees. The seat and back should adjust to your height, and the latter should support your lower back where your spine curves in.

IN ARM'S WAY. Although the best chairs are expensive—about \$400 to \$1,000 and up—the benefits make the investment worthwhile. “Buy quality chairs,” says Bob Bettendorf, president of the Institute for Office Ergonomics, a Stamford (Conn.) management-consulting firm. “Cheap ones don't work.”

The top office-furniture makers all build their own versions of ergonomic chairs. Some leading brands are the bulldog from Knoll (\$870), the Criterion from Steelcase (\$600), and the System 18 from Haworth (\$752). Another



type of chair, called “passively” ergonomic, often has fewer adjustments but is designed to flex along with your movements. The Equa (\$800) by Herman Miller and Evo by American Seating (\$902) fall into this category. Which chair you pick depends entirely on what feels best to you.

If you love the chair you already have, and it doesn't violate any basic ergonomic principles, you might consider modifying it with handy and inexpensive accessories, says Chris Grant, an ergonomics

expert at the University of Michigan. You can buy foam or inflatable pillows to fill the lumbar curve in your lower back and footrests to anchor your feet. Some footrests, like old-fashioned sewing-machine pedals, rock up and down to flex leg muscles and improve circulation.

For anyone who talks on the phone while typing, a telephone headset is critical. “It prevents you from putting a death grip on your neck,” says Grant. And because they leave your hands free, “head-

sets allow you to move. It is a primary principle of ergonomics.” Headsets are primarily at office-supply electronics stores and cost to \$100. Plantronics in Cruz, Calif., sells a \$249 model with a microphone that filters out background noise from people who work amid hubbub.

Since the computer has become the heart of most modern offices and the cause of numerous carpal repetitive stress injuries, proper position and accessibility

crucial. Ergonomists determined that the top of the monitor should be at eye level or slightly below. Otherwise, you're tilting your neck to read the top of the screen," says Bettendorf. Other accessory companies such as Vision Vu in Tyngsboro, Mass., sell modular slabs of plastic for \$5.95 each that you can tuck under your terminal, but a phone book or dictionary may do just

as well. Yet, get a new computer. While stores such as Human Factor Technology in Londonderry, N. H., offer a wide range of ergonomic furniture companies offer some form of adjustable computer stand. Others have two adjustable pieces for the monitor and lower keyboard.

GEOMETRY. Ergonomists say keyboards should be used at elbow level. Keyboard design, however, is being debated. Currently, ergonomists agree that your arms are reasonably stress-free when extended in a horizontal line from your forearms. But some innovators say typing would be even more natural with your palms resting on each other. Adjustable keyboards that allow you to rotate the keyboard include the TONY! and the DataHand. These break up a standard keyboard into three sections that can be turned at different angles.

There's the Kinesis, which divides the keypad between two recessed pits at the corners of the board. It keeps hands at shoulder height and repositions the keys normally manipulated by the pinkies, such as ENTER and BACKSPACE closer to the index fingers. Another keyboard, the DataHand, has two separate sections for hand prints. When you place your fingers there, they sink into little wells that they can activate differently by moving forward, backward, to the left, or to the right.

Ergonomists predict that adjustable keyboards will be the norm of the future. For

the moment, they're just beginning to build momentum. TONY! is still a prototype. Kinesis (\$690 from Kinesis in Bellevue, Wash.) and Comfort (\$590 from Health Care Keyboard in Menomonee Falls, Wis.) are coming out in a

Simple changes—and taking lots of breaks—can work wonders

month or two, and DataHand (\$1,200 from Industrial Innovations in Scottsdale, Ariz.) is available now.

Until such keyboards are more widely accepted, most people will probably get more value from simpler keyboard accessories. Proformix in Whitehouse Station, N. J., and Flex-Rest in Provincetown, Mass., both make keyboard holders that can be attached to the edge of your desk. These hold the keyboard just above your lap and angled slightly away from you. Although nothing is proven, some ergonomists think this position may help prevent car-

pel-tunnel syndrome, an ailment that irritates the nerves in the wrist when you type with your hands bending back toward the body.

Both holders can slide under the desk when not in use. And Proformix' product, Protex (\$300), which won the 1992 Industrial Design Excellence Award, includes a built-in palm rest, document holder, and mouse pad. This last piece is placed above the keyboard so you don't have to keep reaching out to the side to use it, thus risking potential damage to your shoulder.

You can also buy a cushion that attaches to the front of your chair's armrests or to the front of your desk to support your forearms. This may be one way to take the pressure off your wrists while typing.

The least you can do is get a wrist rest, a soft panel that runs along the base of your keyboard. "People often misuse them," says Encino (Calif.) ergonomist Rani Leuder. Rather than leaning on them while typing, she says, people should rest their hands on them during brief breaks in typing. They cost

about \$20 in computer stores.

Other computer accessories play an ergonomic role as well. Document holders placed next to or below your screen will spare your neck and head a lot of twisting and turning. And keeping the document holder in the same plane as the screen, ergonomists say, will cut down on eye strain because you won't be continually refocusing as you look back and forth between the two.

UP AND AWAY. How well you see is also an important part of the ergonomic picture. Experts say the ideal lighting arrangement is a combination of indirect overhead and tabletop task lighting. Indirect overhead lighting is soft and doesn't cause glare. Task lights are designed to illuminate your immediate work area.

The most common problem is that "typical office lighting is much too bright," says Leuder. The easiest remedy is to remove a bulb or two from your overhead fixture and reposition your computer so no light falls onto the screen. To further cut down on glare, you can attach \$55 parabolic louvers over your lights. These three-dimensional grids direct light downward—not to the side. In most home offices, the desk lamp will be more important. Rani Leuder likes the Luxo asymmetric task models (\$150 to \$260). These are designed to cast a shadowless light onto your desk and keyboard but not on your screen.

Another cure for glare is a screen that covers your monitor. Mesh screens (\$50) work but can make the computer text slightly fuzzy. Glass or plastic screens (\$90) are treated with an antireflection coating and are much clearer, but like a camera lens they pick up dirt and fingerprints easily.

Regardless of how your home office is outfitted, if you don't take frequent breaks, it may not matter how good your furniture is. The most important part of ergonomics may only cost you a change in habit.

Pam Black

COMMON-SENSE ERGONOMICS

▶ A proper chair is critical to a healthy office and hence probably worth the \$400-\$1,000 investment. Cushions or foam padding can be helpful support for your lower back

▶ Equip your phone with a headset if you talk and type. This saves your neck and frees your upper body

▶ Position your computer so that the top of the terminal is at eye level or slightly below and the keyboard is at elbow level. Books can lift your monitor, and stowable racks can adjust your keyboard

▶ Use a wrist rest to support your wrists; may be especially helpful during brief typing breaks

▶ Position your monitor to avoid glare on your screen. Consider a visorlike hood for the top of your terminal or a mesh or glass antiglare screen

▶ Many offices are too bright. If drawing the blinds doesn't make your screen easier to see, try removing some light bulbs from your overhead fixture or turn it off altogether. A Luxo asymmetric desk lamp will light up your work area without dimming your screen

▶ One of the best ways to avoid aches and pains is to take frequent breaks, and fidget

DATA BW

Smart Money

STOCKS: PLAYING THE RUSH TO REFINANCE

Homeowners aren't the only ones profiting from lower mortgage rates. With the average rate on a 30-year fixed loan approaching a 20-year low of 8%, refinancings are multiplying and the mortgage-banking business is booming. So much so that it's time for investors to take a closer look at the sector.

Keep in mind that mortgage banks aren't really banks. These companies borrow money from the capital markets to make mortgages. They then sell the mortgages to one or more intermediaries, such as the Federal National Mortgage Assn. (Fann

ed even more business by offering lower rates than competitors, Gray says. In July, the company originated \$2.6 billion in home mortgages vs. \$814 million a year ago.

That means big returns. Gray projects Countrywide's earnings will rise by an astounding 85% this year, to \$2.35 a share. For 1993, he sees a further 30% gain, to \$3.05. And while the stock is trading at 12.6 times projected earnings, slightly higher than conventional banks, analyst Steve Eisman of Oppenheimer points out that Countrywide has none of the credit risks associated with banks.

Margaretten Financial, which was spun off by Primerica in January, is another pick. It's smaller than Countrywide, but the Perth Amboy (N.J.) company has cut a tentative deal with NationsBank to service \$7.5 billion worth of mortgages. That would more than double its servicing business. Eisman says Margaretten's earnings could rise as much as 79% this year, to \$1.70 a share. He sees a possible 21% climb, to \$2.05, in 1993.

ON THE MOVE. Green Tree Financial of St. Paul, Minn., is also getting attention. Unlike other mortgage bankers, Green Tree specializes in loans for mobile homes. With the mobile-home market reviving, analyst Patrick Burton of Piper, Jaffray & Hopwood expects Green Tree's earnings per share to climb 16% this year, to \$4.65, and 10% in 1993, to \$5.10.

Also, watch out for new issues. Some banks and financial firms are cashing in on the mortgage boom by selling all or pieces of their mortgage units. And as long as rates remain low, chances are that many of them could prosper.

John Meehan

HOW MORTGAGE BANKERS COMPARE

Company	Share price Aug. 3, 1992	P-E ratio *
COUNTRYWIDE CREDIT	30¼	12.6
GREEN TREE FINANCIAL	35½	7.7
MARGARETTEN	16¾	9.8
OPPENHEIMER BANK AVERAGE	—	11.5

*Based on projected 1992 earnings
DATA: OPPENHEIMER & CO.,
PIPER, JAFFRAY & HOPWOOD INC.

nie Mae), which securitize the loans and sell them to investors. Mortgage bankers make their profit from up-front finance charges, loan sales, and fees for servicing mortgages.

While many homeowners have already refinanced, a lot of potential business remains. Analyst Jonathan Gray of Sanford C. Bernstein estimates there's still upwards of \$1 trillion in mortgages outstanding that carry rates of 9.5% or higher.

Countrywide Credit Industries is high on Wall Street buy lists. Thanks to low overhead, the Pasadena (Calif.) company has attract-



Tax Tips

DON'T ROLL OVER FOR THIS PAYOUT PLOY

Although the rules about payouts when you leave your company are complex, there has been one simple way to shelter lump sums from tax: Roll over the check from the company's pension fund or 401(k) savings plan into an individual retirement account or another eligible plan within 60 days. But after this year, once you receive that check, it will be too late to avoid a stiff new tax bite.

So, you must arrange in advance for your employer to make a trustee-to-trustee transfer to a cooperating bank, brokerage house, or new employer's plan. Otherwise, lump sums will be subject to a 20% withholding rate.

A major concern of tax advisers is "people being unpleasantly surprised," says Bill Fleming in the Hartford office of accountants Coopers & Lybrand. Those who suddenly change jobs or fall victim to cutbacks are the most likely to "get punished" for not knowing the tax rules.

Without a trustee transfer, a \$100,000 nest egg would mean a check for only \$80,000. You still have 60 days to roll it into an IRA, tax-free until withdrawal. But to shelter the full \$100,000, you'd have to come up with \$20,000 from somewhere else.

If you don't make difference within 60 days, \$20,000 will also be subject to regular tax even though you never saw it. And you're 59½, you'll face penalty. Whether you get the \$20,000 back on your total tax bill next year. For instance, you be overwithheld in gross and get back your \$20,000 part of a refund. Or you even end up owing more.

TAX TRAP. The congressional rationale is to foster trustee-to-trustee transfers so that will keep lump sums away for retirement rather than spend the money they have a check in hand. But few employers now set up to handle such transfers, so Congress is "you down the path" to part of the nest egg away, Fleming says.

By making withholding mandatory instead of optional, as it is now, "they are set out to trap people," Alan Prigal, a New York attorney and consultant to *Bender's Federal Tax*. The change is slated to cost \$2.1 billion to help pay extended unemployment benefits in the first year and is nothing after that. Most people presumably have learned from the got burned. *Dick*

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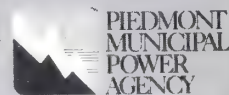
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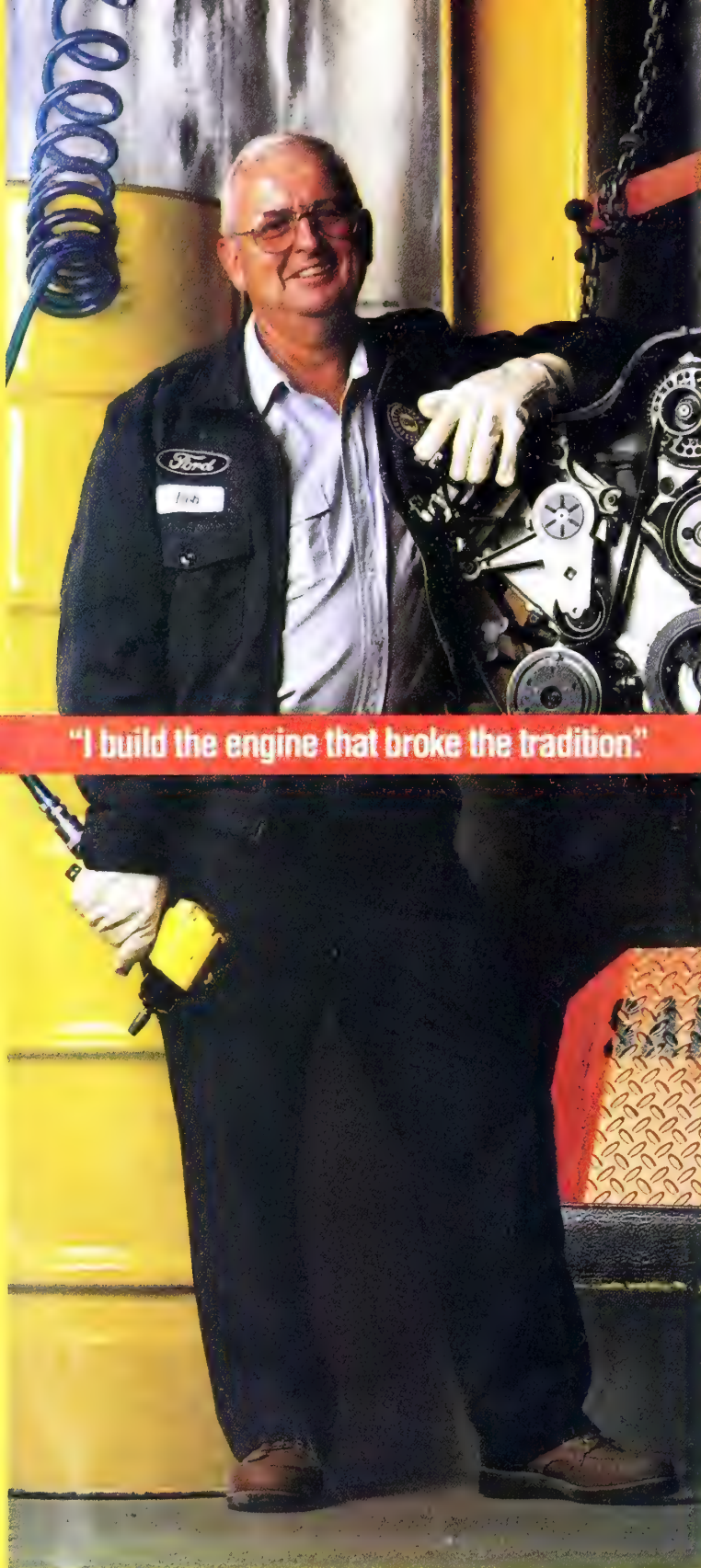
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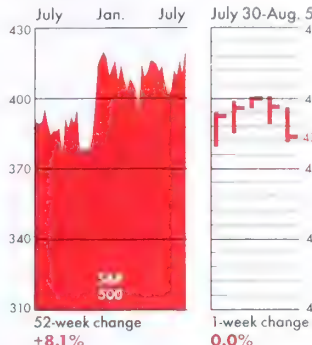
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Investment Figures of the Week

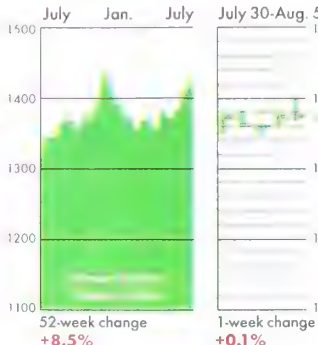
TREASURY

retrenchment and uncertainty in financial markets, as indicated hesitantly to mixed findings. The Dow Jones index fluctuated over a range, with the biggest point decline—coming on back in technology. IBM, set the tone for the bond market was like a star. Traders were discouraged that the Treasury did not reduce the number of bonds to be sold at its refunding.

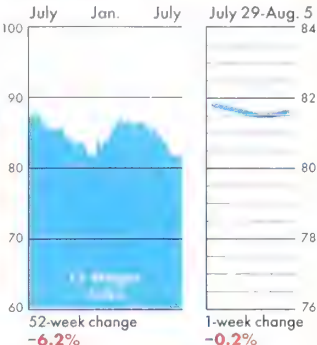
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

	Latest	Week	% change 52-week
STOCKS			
INDUSTRIALS	3365.1	-0.4	11.2
FINANCIALS (Russell 1000)	223.3	0.0	9.4
TECHNOLOGICALS (Russell 2000)	194.5	0.8	12.4
UTILITIES (Russell 3000)	237.4	0.1	9.5
			% change (local currency)
		Week	52-week
FINANCIAL TIMES 100	2392.8	-1.3	-7.9
NIKKEI INDEX	15,983.6	5.9	-32.5
TOPIX COMPOSITE	3406.2	-0.5	-3.5

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.23%	3.25%	5.53%
30-YEAR TREASURY BOND YIELD	7.43%	7.45%	8.18%
S&P 500 DIVIDEND YIELD	2.90%	3.01%	3.2%
S&P 500 PRICE/EARNINGS RATIO	24.6	24.6	19.9

TECHNICAL INDICATORS

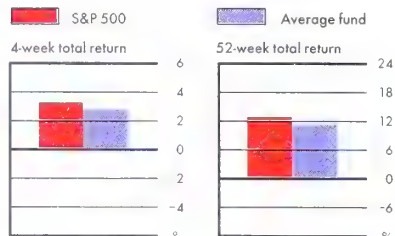
	Latest	Week ago	Reading
S&P 500 26-week moving average	411.2	410.7	Positive
Stocks above 26-week moving average	49.8%	45.6%	Neutral
Speculative sentiment: Put/call ratio	0.36	0.41	Neutral
Insider sentiment: Vickers sell/buy ratio	1.81	1.85	Positive

INDUSTRY GROUPS

	4-week	52-week	Strongest stock in group	4-week	52-week	Price
LEADERS						
BUILDING	13.7	57.1	PHM	27.2	92.5	25 3/4
CONSUMER SERVICES	13.2	25.1	NIKE	15.1	65.1	72 1/4
ENVIRONMENTAL	13.2	26.8	HEWLETT-PACKARD	14.0	31.4	74 1/4
INDUSTRIALS	11.2	26.2	ADVANCED MICRO DEVICES	23.0	-18.5	9 3/8
RETAIL	10.3	12.4	NEWELL	15.9	8.8	40
LAGGARDS			Weakest stock in group			
TELECOMMUNICATIONS EQUIPMENT	-8.1	-6.0	NORTHERN TELECOM	-10.4	-9.8	34 5/8
TRANSPORTATION	-5.9	-1.2	ROADWAY SERVICES	-9.1	10.6	58 5/8
MASTING	-5.8	11.8	TELE-COMMUNICATIONS	-11.1	24.1	18
TRANS	-5.4	31.9	McDONALD'S	-7.6	34.6	42 3/4
INSURANCE AND LOANS	-4.0	-1.9	GOLDEN WEST FINANCIAL	-5.7	10.9	43 1/8

MUTUAL FUNDS

	%		%
Four-week total return		52-week total return	
STRATEGIES	9.6	DFA JAPANESE SMALL COMPANY	-12.2
EMERGING GROWTH	8.7	T. ROWE PRICE JAPAN	-11.4
SELECT SOFTWARE & COMPUTER	8.2	CAPSTONE NIKKO JAPAN	-10.0
52-week total return		52-week total return	
SELECT SAVINGS & LOAN	51.7	LEXINGTON STRATEGIC INVESTMENTS	-42.4
SELECT REGIONAL BANKS	48.5	UNITED SERVICES GOLD SHARES	-34.7
M REGIONAL BANK B	45.8	G. T. JAPAN GROWTH	-32.4



RELATIVE PORTFOLIOS

	Treasury bonds	U. S. stocks	Money market fund	Gold	Foreign stocks
Counts the present					
10,000					
one year ago					
portfolio					
es indicate					
total returns					
	\$12,104	\$11,269	\$10,371	\$9,895	\$9,814
	-0.03%	+1.64%	+0.06%	-1.81%	+1.29%

This page is as of market close Wednesday, August 5, 1992, unless otherwise indicated. Data includes S&P 500 companies only; performance and share prices are as of market close.

August 4. Mutual fund returns are as of July 31. Relative portfolios are valued as of August 4. A more detailed explanation of this page is available on request.

THE PIDDLING TAX BILL

Congress has spent much of this year struggling to produce an "economic recovery" tax bill. Now, such a bill is before the Senate. The details remain uncertain, but one thing is sure: The measure will do little to boost the economy. And the fact that lawmakers have strained so much to produce this pea speaks volumes about the failures of leadership in Washington.

Not that the effort didn't get off to a quick start. After President Bush proposed an assortment of tax changes—including a capital-gains rate cut and new incentives for savers, investors, and home buyers—in his State of the Union message, Congress took up the measure quickly and had a bill on the President's desk by March. But because Democratic lawmakers tacked on a "millionaire's tax"—through mixed motives of fiscal responsibility and political point-scoring—Bush vetoed the bill, then seemed to lose interest for months.

But the tax bill wouldn't go away, because nearly everyone wants to extend the research and experimentation tax credit and an assortment of other credits expiring this year. These "extenders" are the driving force behind the certainty of some sort of tax legislation in 1992. That has kept members of the House and Senate tax-writing committees redrafting their pet provisions, while the lobbyists keep on lobbying. Along the way, versions of the bill have acquired such misguided provisions as a new tax break for the owners of existing commercial real estate and a punitive tariff on Japanese minivans.

The U.S. economy desperately needs higher savings and more investment. But the 1992 tax bill in any of its permutations will have only a marginal effect on the economy. It has simply become an election-year waste of everyone's time.

MAKE SATURN THE STANDARD-BEARER

In the late 1980s, critics said General Motors Corp.'s small-car spin-off, Saturn Corp., was taking too long and costing too much money. They observed pointedly that, rather than needing a new car company, GM desperately needed to remake the company it already had.

Today, critics of the import-fighting Saturn division are harder to find. Sales are so brisk that Saturn's Spring Hill (Tenn.) factory can't keep pace. The cars' high quality, along with excellent service and revolutionary, low-pressure sales tactics, has made Saturn buyers among the happiest in auto-dom, according to independent research.

Already, Saturn has had an impact on the way automobiles are sold in the U.S. Saturn dealers are adopting the same simple, one-price, no-haggle approach at their other franchises. And they're treating all of their customers with the kind of respect and pampering once reserved strictly for luxury car buyers. Meanwhile, rival carmakers are frantically

trying to train all of their dealers to do the same thing.

Now, to make sure Saturn's \$5 billion investment really pays off, GM's brass are confronted by a dilemma (page 102). GM must give Saturn enough capital to keep its momentum rolling, even though the division still loses money. The start will soon need a new assembly plant to meet so much demand and new models to keep customers in Saturn as they age and need bigger cars. That's tough, because Saturn and other GM divisions are desperate for money to develop new models, too.

More important, GM managers must sweep aside paralyzing, bureaucratic roadblocks and adopt the innovations that make Saturn a success. All GM divisions should get their dealers into shape before nimble competitors do them by. GM and the United Auto Workers should move more quickly toward the kind of partnership that has produced such stunning quality in Spring Hill. And GM's divisions need to work more closely with suppliers, as Saturn did, to design the kind of cars consumers want to buy. In other words, GM should accelerate the "Saturnization" of its whole enterprise.

MORE OUNCES OF PREVENTION

Public health needs constant attention. The problem is that when it works, fickle politicians turn quickly to the next big problem. That's what happened in the early 1980s, when such old diseases as tuberculosis, syphilis, and measles seemed to have been defeated—and AIDS was still unknown. Then the budget for the federally funded Centers for Disease Control got flattened out, so the agency pared spending for preventative-care programs such as immunization and infectious-disease tracking. Many state health departments also cut back their public-health departments.

The result has been a startling increase in the incidence of measles, sexually transmitted diseases, AIDS, and infant mortality (page 102). And to those in the field, it has been an unnecessary and costly shame. The U.S. has the capacity to mount effective public-health programs—look at the eradication of polio and smallpox. It's just a matter of conviction in Washington that the proverbial ounce of prevention pays in dollars and cents. As Health & Human Services Secretary Dr. Louis W. Sullivan often points out, prevention costs less. The cost of AIDS is a staggering \$10.3 billion this year, but in 1991, prevention programs cost about \$580 million. Each dollar spent on a measles vaccination saves \$10 in medical costs. An \$850 course of drugs to treat a latent infection of the new, multidrug-resistant variety of TB can save as much as \$100,000 in hospital and treatment costs. For polio, diagnostic testing and antibiotics to treat the disease cost a few dollars. But a baby born with congenital syphilis, with its sharply rising occurrence—can rack up \$200,000 in hospital costs alone.

Sullivan has presented an admirable plan in his "Hettinger 2000" report. Now the time has come for the Administration and Congress to back up the rhetoric and provide enough funding to achieve the primary care goals he has outlined.

A red umbrella with a dark handle leans against a desk. The desk is cluttered with office supplies: a multi-line office phone, a pen holder with pens and scissors, a keyboard, and a computer monitor in the background. The umbrella's tip rests on the floor near the legs of an office chair.

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With USAir as partner,
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home and abroad

PAGE 54



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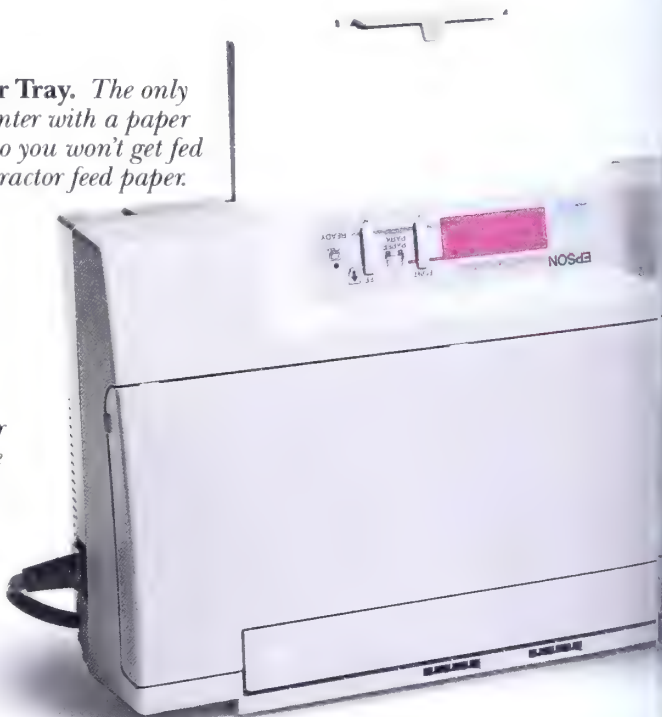
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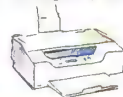
Dot Matrix Printer." Just call 800-289-3776 for your copy, and the name of the Epson dealer nearest you.

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And take home a printer that could teach the others a lesson or two.

EPSON

**WHAT YOU
SHOULD
KNOW BEFORE
BUYING A
DOT MATRIX PRINTER**



EPSON



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Servers



Three Years Ago, There's As A Lux

© 1992 Lexus A Division of Toyota Motor Sales, U.S.A., Inc. Always wear your seat belt and obey all speed laws. For more information, call 800-852-7398 (800-LEXUS). For professional driver, using special safety equipment and procedures. This should not be used.

like they always say, time sure flies when
you're having fun. Which is exactly what Lexus
enthusiasts have been doing lately.

And why not? The LS400's 32-valve V8 can
accelerate from zero to sixty mph in 7.9 seconds.*
According to a sound, one critic wrote, like that

of tear-
ing silk
(notice how he
didn't say polyester).



Of course auto buffs aren't the only ones
talking about the LS400. *Kiplinger's Personal*

Finance Magazine rated it
"best in class."

But perhaps the more
notable statistic of late is how
well an LS400 performs on
paper (even the most devoted
aficionado must abide by his
wallet). It recently posted the
highest retained value in the
luxury class.† Not bad for a
car you couldn't even find a
few years ago.

Indeed, the times they
are a changing. And so, as
you may have noticed, is the
luxury car.



The Relentless Pursuit Of Perfection.



There's No Such Thing as a Free Car Enthusiast.



"PUTTING PEOPLE FIRST": SIR COLIN MARSHALL WILL NEED TO MAKE SERVICE AS IMPORTANT AT USAIR AS HE DID AT BRITISH AIRWAYS

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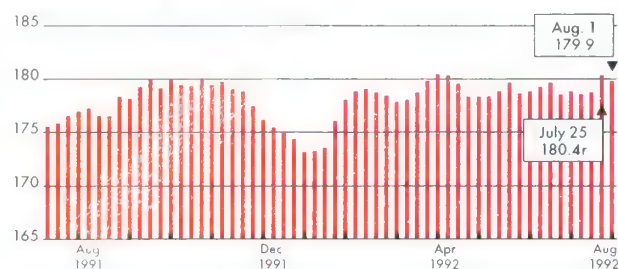
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BusinessWeek Index

PRODUCTION

Change from last week: -0.3%
Change from last year: 1.6%

1967=100 (four-week moving average)

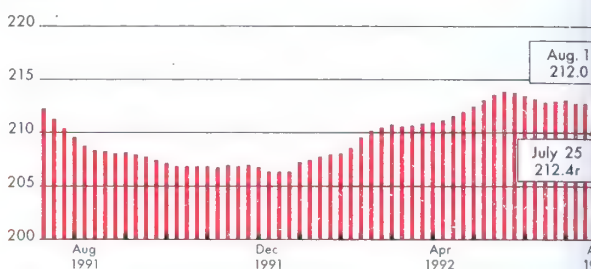


The production index was little changed during the week ended Aug. 1. On a seasonally adjusted basis, truck, auto, steel, electric-power, and paperboard production increased. Crude-oil refining, coal, paper, and lumber output declined, while rail-freight traffic was unchanged from the previous week. Before calculation of the four-week moving average, the index rose to 178.7 from 177.1. The index rose to 180.1 for the month of July from 178.6 in June.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: -0.2%
Change from last year: 1.1%



The leading index edged slightly lower during the week ended Aug. 1, reflecting weakness earlier in the four-week period. In the latest week, higher stock prices, lower bond yields, and improved growth rates for real estate loans, materials prices, and M2 offset the negative sign of a rise in business failures. Before calculation of the four-week moving average, the index increased to 212.3, from 211.2. For all of July, the index stood at 212.3, down from 213 in June.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (8/8) thous. of net tons	1,727	1,742#	8.3
AUTOS (8/8) units	88,968	62,490r#	1.2
TRUCKS (8/8) units	72,389	51,672r#	39.8
ELECTRIC POWER (8/8) millions of kilowatt-hours	63,431	65,652#	1.0
CRUDE-OIL REFINING (8/8) thous. of bbl./day	13,900	13,810#	1.4
COAL (8/1) thous. of net tons	18,363#	18,623	-4.0
PAPERBOARD (8/1) thous. of tons	833.5#	815.7r	5.9
PAPER (8/1) thous. of tons	743.0#	755.0r	-4.5
LUMBER (8/1) millions of ft	482.2#	487.5	-7.9
RAIL FREIGHT (8/1) billions of ton-miles	20.3#	20.4	5.2

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFPA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (8/12)	128	127	137
GERMAN MARK (8/12)	1.47	1.48	1.75
BRITISH POUND (8/12)	1.92	1.92	1.67
FRENCH FRANC (8/12)	4.97	4.99	5.95
CANADIAN DOLLAR (8/12)	1.19	1.18	1.14
SWISS FRANC (8/12)	1.32	1.32	1.53
MEXICAN PESO (8/12)	3,080	3,094	3,036

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (8/12) \$/troy oz.	346.800	350.750	-2.5
STEEL SCRAP (8/11) #1 heavy, \$/ton	88.50	88.50	-5.9
FOODSTUFFS (8/10) index, 1967=100	198.9	197.7	-2.0
COPPER (8/8) c/lb.	115.6	119.1	8.6
ALUMINUM (8/8) c/lb.	60.5	60.9	4.1
WHEAT (8/8) #2 hard, \$/bu.	3.20	3.40	5.6
COTTON (8/8) strict low middling 1-1/16 in., c/lb.	60.27	59.61	-12.9

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (8/7) S&P 500	422.22	419.88	
CORPORATE BOND YIELD, Aaa (8/7)	7.99%	8.01%	
INDUSTRIAL MATERIALS PRICES (8/7)	99.0	98.9	
BUSINESS FAILURES (7/31)	424	357	
REAL ESTATE LOANS (7/29) billions	\$397.7	\$397.3	
MONEY SUPPLY, M2 (7/27) billions	\$3,409.4	\$3,404.8r	
INITIAL CLAIMS, UNEMPLOYMENT (7/25) thous.	469	400	

Sources: Standard & Poor's, Moodys, Journal of Commerce (index: 1980=100), Dun & Street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (July)	180.1	178.6r	
BUSINESS WEEK LEADING INDEX (July)	212.3	213.0r	
EMPLOYMENT, CIVILIAN (July) millions	117.8	117.6	
UNEMPLOYMENT RATE, CIVILIAN (July)	7.7%	7.8%	

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (7/27)	\$962.8	\$961.4r	
BANKS' BUSINESS LOANS (7/29)	276.9	277.8r	
FREE RESERVES (8/5)	834	730r	4.4
NONFINANCIAL COMMERCIAL PAPER (7/29)	138.8	140.6	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (8/11)	3.23%	3.28%	5.0
PRIME (8/12)	6.00	6.00	8.0
COMMERCIAL PAPER 3-MONTH (8/11)	3.37	3.39	5.0
CERTIFICATES OF DEPOSIT 3-MONTH (8/12)	3.28	3.32	5.0
EURODOLLAR 3-MONTH (8/8)	3.31	3.31	5.0

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

If you have time to do extensive research on worthwhile investments, read this.

We'd like to tell you about one of the best kept secrets in the world of business: Freddie Mac. You may recognize the name, but you probably don't know who we are or what we do. Read on. The facts will surprise you.

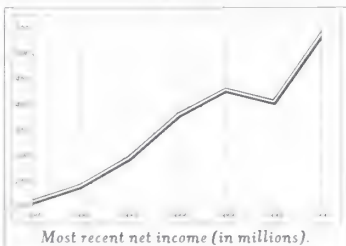
First, Freddie Mac is a publicly held corporation. We're listed on the New York Stock Exchange (FRE), and like all successful corporations, we work hard to be efficient and competitive. (See the box below to find out our ranking.)

FRE

Freddie Mac buys home mortgages from lenders, packages them in the form of securities, and sells the securities to investors. This creates a continuous flow of funds, which in turn makes mortgage financing more available and more affordable. That's how we've been helping more Americans to buy homes for 21 years. It's a rewarding business to be in.

It's also rewarding for investors. In

1991, our net interest margin (revenue base) was approximately \$1.5 billion. Our net income was \$555 million. And our



return on book equity has been more than 20% for ten straight years. Which brings us to the bottom line.

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Freddie Mac is a publicly held corporation, listed on the New York Stock Exchange (FRE). We rank 11th on the FORTUNE list of the 50 Largest Diversified Financial Corporations.

Here's what we did to make it to the top of the list. Freddie Mac purchases home mortgages

and packages them as securities to sell to investors. This keeps mortgage money flowing, so financing is more available and more affordable. Our business helps more Americans to own homes. And in the process, Freddie Mac has earned a profit for 21 straight years. Have we piqued your interest? There's more information above.

If you're about to turn the page, read this.

Freddie Mac has earned a profit 21 years in a row. Maybe you should read the rest of the page.

STEADY FREDDIE
Freddie Mac
THE IDEA BEHIND ONE IN EIGHT AMERICAN HOMES.

23	4.59	9.60	2.94	10										
99	4.49	12.00	2.94	11										
28	4.81	7.58	3.94	10										
11	4.75	7.58	4.94	10										
5	4.74	7.28	4.94	10										
3	4.75	7.42	4.94	10										
1	4.54	8.50	4.94	10										
7	4.58	9.55	4.94	10										
4	4.84	7.20	5.94	10										
1	4.91	7.50	6.94	10										
1	4.76	8.60	6.94	10										
9	4.76	8.63	6.94	105:03	105:09	6.96	8.45							
2	4.76	8.30	7.94	104:06	104:12	6.25	8.60							
0	4.67	6.70	8.94	100:27	100:29	6.29	8.30							
8	4.72	8.60	8.94	104:23	104:29	6.37	8.60							
8	4.80	6.58	9.94	100:12	100:16	6.36	9.50							
0	5.76	8.30	10.94	104:12	104:18	6.35	8.10							
8	5.09	5.89	11.94	98:18	98:22	6.43	8.30							
4	5.15	8.20	11.94	104:06	104:12	6.38	9.60							
8	5.15	8.05	12.94	103:23	103:29	6.47	11.70							
7	5.21	5.45	1.95	97:14	97:18	6.40	8.60							
8	5.23	8.40	1.95	104:23	104:29	6.47	9.90							

If you're looking for a term

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Here's what we do: We're on the list. Freddie Mac is a public company.



ROOTS: CASTRO IN THE VILLAGE OF LÁNCARA, AT THE HOUSE WHERE HIS FATHER WAS BORN

GALICIA GREETSS ITS MAN FROM HAVANA

The farmers of Lánara, like fellow Galicians in hundreds of tiny villages in this misty, northwestern corner of Spain, don't usually make much fuss over the occasional return of New World relatives. After all, this poor, densely populated land of tiny plots among oak and eucalyptus groves has seen tens of thousands of its sons and daughters go to seek a better life in *Las Américas* and come back to visit.

Still, they jam the streets to see the aging son of Angel Castro, who left Lánara as a young bachelor in the 1920s and made it big as a plantation owner in Cuba. Traffic is blocked for about 10 miles along the narrow, winding road leading here, as police vans race in front of the motorcade that whizzes Fidel Castro and his Galician hosts up to the door of the tiny stone farmhouse where his father was born. Flanked by a dozen Cuban bodyguards, Castro's entourage moves up the pathway to his ancestral home—plowing through a throng of villagers, TV crews, and print journalists.

Amid the tumult, Angel Castro's son, born on the family plantation in eastern Cuba in 1926 and the leader of the island since 1959, passes slowly through the doorway. It's his first visit to his father's hometown. The crowd strains to catch a glimpse of the full, gray beard and the signature green fatigues.

Moments later, apparently im-

mersed in thought, Castro comes out and moves toward the small garden behind the house. A band of supporters from Spain and Cuba cheers and chants: "*Cuba, Si! Yanquis, No!*" Castro pauses, touches the corner of the roof of the house, and walks back to his car.

BIG BARBECUE. The excitement lasts no more than 15 minutes. As the motorcade whisks Castro from Lánara's single street of about 15 houses to a massive barbecue in nearby Arnea de Arriba, the townspeople melt away.

In contrast to the cool, critical reception that Castro received in Madrid at the Latin American summit, he gets high marks here. "In Lánara, we're all in agreement about the visit, because of the job he's doing back home—doing it back there, he's doing it also for all of us," explains Felicia Diez, a woman not quite old enough to be Castro's mother. "Fidel was against the exploitation his

father was committing and wanted to liberate his people from the abuses of big capital."

Before Castro's arrival in Lánara, there had been some dissent. But María Cobas reflects the town's emotions. Coddling her infant son, she says: "It's marvelous. It's a source of pride for all Lánara for a person like this to come. I don't share his political views, but he's a very famous person."

TRADE TALK. Today, fame clearly outweighs ideology. The man responsible for Castro's visit is Manuel Fraga Iribarne, president of the Galician regional government. Hardly a communist sympathizer, the 69-year-old Fraga served Cabinet posts under dictator Francisco Franco and then dominated Spain's democratic right wing for a decade following Franco's death in 1975. Known as a shrewd politician, Fraga thinks he sees a way to foster a Cuban transition to democracy while helping his native region.

Galicia is clearly in need of a boost. Gallegos earn only 80% of the average Spanish income. Unemployment hovers at 12%, and the young continue to leave. To help the economy, Fraga pitches trade deals with Cuba. To speed the end of communism, he hints that Galicia might be a nice place for Castro to retire.

As part of the official visit, Castro and Fraga visit Televes, a manufacturer of satellite dishes in nearby Santiago de Compostela. Later the same day, Castro drives two hours to the port of Puerto del Caramiñal, where Enrique López Veiga, Galicia's fisheries minister, escorts him on a tour of a tuna boat. Later, as Castro makes his way down a gangplank, López tells me that a cooperative fishing-industry agreement is in the works, but he won't provide details. This port visit, he says, is a very good sign, and Castro "wouldn't have been able to ask the questions he did if he hadn't been looking into this seriously."

More unlikely, Galician officials concede, is the prospect of Castro settling down here in retirement. He is not answering any questions about Cuba's political future or his personal plans, though he does say he feels at home here, where his last name is as common as Smith is in the U.S.

Castro leaves the land of his forebears with only one cryptic promise: a vow not to do anything "of which my fellow Galicians would be ashamed." If by that he means Cuba will remain Marxist, Manuel Fraga may have to wait a while before he can export democracy along with satellite dishes.

GARY ABRAMSON

Gary Abramson reports for *BUSINESS WEEK* from Madrid.





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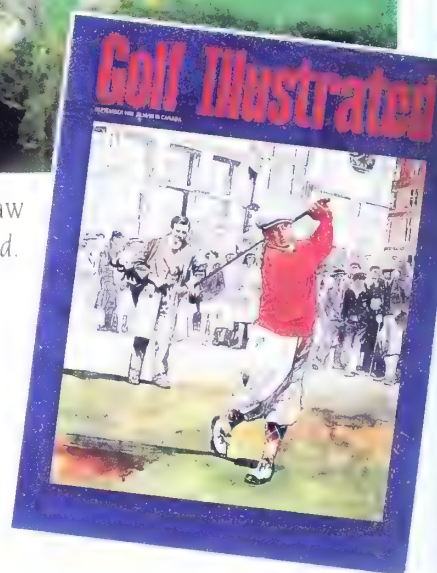
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THINK HUMAN CAPITAL COMES FIRST? THINK AGAIN

Regarding the Alan Blinder column "We should focus on human capital, not capital" (Economic Viewpoint, July 27): As a young business owner (age 33) who got his start in business during the Reagan era, I am always amazed at some of the ivory tower theories, such as Blinder's. Obviously, he has never raised capital to start a business or tried to refinance a commercial real estate project.

A business needs capital before it can even utilize its "human capital." During the Reagan Administration, capital was available for businesses such as mine, which employed more than 200 people at its peak. During the current capital crunch for small business (which is very real), human capital is one of the first things to go.

R. Birch Dalton
 Chairman & CEO
 SEAR Corp.
 Indianapolis

A PAY PLAN THAT REWARDS LONG-TERM THINKING

Your indictment of pay for performance ("The SEC's CEO pay plan: No panacea," Top of the News, July 6) suffers from a case of mistaken identity. Giving away buckets of stock options and linking bonuses to near-term accounting measures are by no means pay-for-performance packages. That managers so paid should undertake risky but detrimental ventures and cut spending to boost profits should surprise no one. That is precisely what they are being paid to do. Instead of illustrating certain inadequacies of pay for performance, these examples only testify to the abject failure of traditional compensation methods. What's needed are incentive plans that encourage managers to think and act like long-term owners. Four ways to secure such commitment include:

■ Tying bonuses to an estimate of the company's true economic profits (value added to shareholders' investment) rather than reported accounting earnings. (Among other things, this means that

R&D and process improvements are capitalized, not expensed.)

■ Setting bonus targets by formula, not negotiation, to lift incentives for gamesmanship that often corrupts planning.

■ Deferring exceptional bonuses, with full payout tied to continued stellar performance, to keep managers' interests aligned with shareholders' over time.

■ Granting a significant increase in actual stock ownership but requiring managers to buy options with an exercise price that rises over time to reflect the cost of capital.

G. Bennett Stewart III
 Senior Partner
 Stern Stewart & Co.
 New York

'CONSERVATIVE' TAX POLICY: ADAM SMITH SAID IT BEST

In view of your usual high standards, it is disappointing to see you use the manipulative term "redistributionist economics" in such a partisan way ("The Democrats finally get it," Editorials, July 27).

All changes in taxes—up or down—constitute redistribution of wealth, not just those that ask the rich to share. The truly conservative position, in contrast to those who now claim to be conservative, is that of Adam Smith. In *Wealth of Nations* in 1776, he wrote: "The subject of every state ought to contribute toward the support of government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."

Ward McCabe
 San Jose, Calif.

ADVERTISING CREATES AWARENESS —GOOD PRODUCTS CREATE DEMAND

In reference to "Three shops with plenty to sweat about" (Marketing, July 20), the issues you raise are no less valid for not being new: Managers who grow up in a really strong marketing culture know that advertising cannot create demand unless the product or service genuinely meets a consumer need. Good advertising can build awareness, and if it communicates a consumer-desired mes-

BUSINESS WEEK
 AUGUST 24, 1992 ***3280
 ISSN 0007-7135



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HOW A BOSTON MUSEUM
SENDS EARLY AMERICAN ROOSTERS
FOR CHICKEN FEED.



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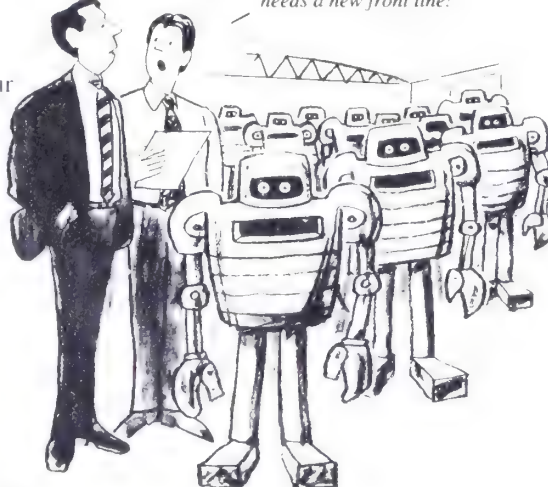


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Readers Report

CORRECTIONS & CLARIFICATIONS

Frost & Sullivan Holding Corp., a firm involved in an alleged insider-trading ring ("The system was perfect," Finance, Aug. 10), is in no way connected with the market-research company, Frost & Sullivan Inc. (New York) or its subsidiary, Frost & Sullivan Ltd. (London, Paris, and Frankfurt).

A chart accompanying the story "Burn" (Cover Story, Aug. 17) had an incorrect number for cars sold in January, 1992. The correct number is 10,204. In another story on Saturday ("May we help you kick the tire," Cover Story, Aug. 3), we misstated the gross margin built into the car's price. The correct number is 14%.

sage, can get a trial. However, unless the product delivers, it will fail.

Richard S. Gleason
Westport, Conn.

MEASURING THE MONEY SUPPLY: THERE IS A BETTER WAY

As for the complaint that the money supply isn't growing sufficiently ("Memo to Democrats: Read Al's lips," Top of the News, Aug. 3), it's time for critics to wake up to a fact that the Fed finally realized: M2 doesn't reflect what is happening with money. But M1 does, and it has been soaring since last August! It must be apparent that billions of dollars have been flowing out of M2 categories of CDs, money market funds, and savings accounts and into stocks and bonds via transaction accounts (M1). So there's plenty of money around, not to mention a speedup in velocity, and sooner or later, business activity will pick up. By the way, long-term interest rates won't fall much more as long as investors expect inflation to average 3% to 4%—and it will, at the least.

Edward R. McMillin
Senior Vice-President/Chief Economist
Rainier National Bank
Seattle

HOW FLYWHEEL BATTERIES WOULD CHARGE UP GM'S IMPACT

Your article "A new spin on electric car batteries" (Developments to Watch, July 13) needs some clarification.

We project that AFS flywheel batteries, if installed in General Motors' top passenger Impact electric car, would propel it between 300 to 600 miles a charge, depending on the fiber composite used in the flywheel rotors. Twenty AFS flywheel batteries would fit into the

Edward W. Furia
President
American Flywheel Systems
Seattle

Howard A. Rubel
Senior Vice-President
Research
C. J. Lawrence Inc.
New York

or's note: Times have indeed changed in China, where the 15% tip is usually becoming a way of life, especially in the South.

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A RUSSIA FROZEN IN TIME

Sure, I thought, opening Frederick Kempe's *Siberian Odyssey*.

Here's an author who thinks he can travel through Siberia for just five weeks and, without even knowing the language, explain the secrets of the in-

teresting and the What's happened.

But Kempe surprised me. The veteran *Wall Street Journal* foreign correspondent has written a first-rate travel book. Kempe takes the reader down the Ob River, through Stalin's old death camps,

past nuclear-weapons facilities, into heavily polluted steel and oil towns, and out onto the tundra roamed by nomads. His conversations with Siberians come across as genuine, though they are filtered through an interpreter. And by the last leg of the journey, Kempe decides that the Russian soul is not so

Still, his travelogue is

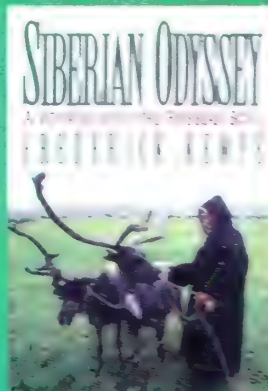
about reform in Russia. Yes, incredible changes have taken place. But at the same time, millions of Russians think, work, and live much as they have for decades. Values, prejudices, and fears built up over generations cannot be transformed overnight, no matter how much resentment and festering for the old regime and no matter how radical a reform the Kremlin

led last summer, before the failed coup

drove him quickly by the fear enclosing

hands Kempe documents detailing the disappearance of plutonium and the release of radioactive gases into the atmosphere. Only a few years ago, this would have landed Kempe a long prison term as a spy. Nothing happens to him, although a member of the expedition. Supreme Soviet member Yuri Kaznin, later confiscates the documents. Mistrust of Westerners does linger. "Why are you coming on this trip anyway?" Kaznin asks Kempe early on. "You write for only rich people who only want to exploit Siberia."

Confronted with
 the chaos of reform,
 some long for the
 predictability of the
 old system



At Kolpashevo, a village on the Ob and former gulag where Stalin executed more than a half million "enemies of the people," Kempe talks to Anatoly Patekyin, a lifeguard on the river, who saw it lay bare a mass grave in May, 1979. "The corpses were so well-preserved after all those years in the frozen ground that those who had known the dead would have recognized their features.... I saw that in every head there was a hole, a bullet hole," he recalls.

In Shpalo-zavod, not far from the place where Stalin was exiled in 1912, Kempe visits an elderly couple sent there by the

on *kulaks*, private farmers. The woman, as obviously as the gray scarf wrapped around her head," Kempe writes. Eyeing his notebook, she asks, "Maybe you want to take me to jail?" In another

cuted by Stalin in 1937 remarks: "It has become a tradition of Soviet people to be afraid of each other.... You must be careful—even now."

Kempe's resigned Siberians assign their troubles to *sudba*, or fate. Confronted with the chaos of democracy and a market economy, some long for the predictability of the old system. "If we had Stalin now, everything would be O.K.... If the leadership of the country would expose a little more, everything would all be better off," the narrator of a museum honoring Stalin complains.

Vladimir Koryakov, who first worked at the steel factory where he first worked at age 16, confesses that he hates capitalism. He finds searching for customers humiliating. And Lieutenant Colonel Vladimir Lazik, chief of Prison Colony No. 5, on the Tom River, mourns the loss of the Communist Party. "I wanted to be a communist," he says

with this ideology and now we ask we we can't put our thoughts into

Such lament worry en that local bosses were combing his books to catch him in a time. Says Kempe: "Communism changed since Kempe entrepreneur told me that

gulags of Vorkuta. Kempe describes Si

about Russia while it entertains. Read it

survived about the same years.

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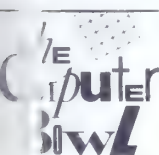
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O.K., I WAS WRONG. WE DO NEED TO STIMULATE THE ECONOMY

BY ALAN S. BLINDER



Virtually any kind of tax cut or spending increase will help. But what I suggest is an investment tax cut for business, along with some emergency relief for beleaguered cities and states

Once, when John Maynard Keynes, the great British economist, was rebuked for changing his mind on some issue, he turned the tables on his accuser with a sharp retort: "Sir, when I learn new facts, I sometimes change my opinion. What do you do?"

Last winter, there was a rising chorus of calls for fiscal stimulus: new spending or tax cuts designed to give the economy a swift kick upward. I refused to join those calls, arguing in this column that:

- The deficit was already too large.
- The recession had been unusually mild.
- Interest-rate cutting by the Federal Reserve should and would power the recovery.

As a good Keynesian, I hereby change my mind. Several new facts lead me to conclude that the time for fiscal stimulus has come.

First, we now know that the recession has been neither shallow nor short. A year ago, the data showed it was a two-quarter recession that had pulled the gross national product down a mere 1.2%—about half as much as an average recession. Then, the national accounts were extensively revised, shifting the focus from GNP to gross domestic product, and the Commerce Dept. estimated that GDP had actually declined 1.6%. Now, the most recent data revisions tell us the recession lasted three quarters and brought GDP down 2.1%. In short, it was an average recession, not a midget.

Second, we now know that this is the recovery that wouldn't. While the U.S. economy has experienced five consecutive "up" quarters, the average annual growth rate during this period has been a paltry 1.6%. That's a far cry from the historical norm of 4% to 6% growth during the 18 months following a recession bottom. The "double dip" we all feared actually happened, and the economy is now sputtering again. We can ill afford a third dip.

DOING WORSE. It is easy to understand why 1.6% growth does not look like recovery to most Americans. Because both population and productivity increase each year, we need GDP growth of 2% to 2.5% just to keep a stable rate of employment. If we do worse, unemployment rises. And we have done worse: Only one of the five quarters of "recovery" so far has reached even the 2% to 2.5% benchmark of mediocrity. So here we are, 15 months after the recession trough, stuck with an unemployment rate higher than at the bottom. Fewer Americans have jobs now than before the recession began, even though our labor force has grown by about 2 million workers. That is not a recovery worthy of the name.

Third, the interest-rate elixir that was supposed to invigorate economic activity has failed

to do so. Not that it hasn't been tried. Although the Federal Reserve was a bit of a slow getting started, it has cut short-term interest rates repeatedly and vigorously—driving rates down to levels not seen in this country in almost 30 years. But the results have been meager. Six months ago, many economists (including me) counseled patience: Give the economy a chance to work. But now, the time for patience has passed.

Simply put, we must fire both engines. While the Fed continues its campaign of monetary ease, the government should open the fiscal throttle: Damn the deficit and full steam ahead—at least for a while. But what, in concrete terms, does that mean? Virtually any sort of tax cut or expenditure increase will stimulate the economy. But I would advocate two in particular.

FAST ACTION. First, enact a sizable but temporary investment tax credit (ITC). I would suggest a credit of at least 10%, lasting at most 18 months. The idea is to get private business to kick-start the economy by bringing their investment plans forward in time. If Congress and the President can manage the legislation subtly—a dubious proposition, to be sure—it would be better to make the credit "marginal," that is, to apply it only to spending that is above some specified base amount. But the important thing is that we get it—and act. Relative to many other proposed tax cuts, the temporary ITC has two important virtues: it does not worsen the long-run budget deficit because the revenue loss is transitory. And it builds for the future by promoting investment, not consumption.

Second, provide emergency fiscal relief for beleaguered cities and states whose budget crises are now forcing them to cut spending and raise taxes—precisely the wrong thing to do in a weak economy. This part of the program can share the same two virtues, if it is given as explicitly temporary grants, interest-free loans and if the formula is especially generous to states that earmark funds for public investment. In apportioning aid, it is vital not to penalize states that have already hit the fiscal bullet. That is, assistance should be based on per capita income, unemployment or some such thing—not on the state's current budget deficit.

It is no coincidence that this plan bears a family resemblance to proposals advanced in the months ago by Senators Paul S. Sarbanes (Md.) and Jim Sasser (D-Tenn.), and by Nobel laureates Robert M. Solow and James Tobin. Had we listened to them months ago, the picture would be in less dire straits today.

Better late than never.

ALAN S. BLINDER IS THE GORDON S. RENTSCHLER MEMORIAL PROFESSOR OF ECONOMICS AT PRINCETON AND THE AUTHOR OF *GROWING TOGETHER*.



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BY GENE KORETZ

CUTTING CAPITAL-GAINS TAXES: HISTORY SAYS IT'S A MISTAKE

If there's one subject on which conservatives, Republicans, the investment community, and most businesspeople seem to agree, it's the beneficial impact that a capital-gains tax cut would have on the economy. Such a tax cut, they claim, would promote more savings and investment and thus foster long-term growth.

Opponents of preferential treatment of capital gains, on the other hand, argue that it would mainly confer huge tax relief to the top .1% of taxpayers who account for the overwhelming bulk of such gains. Its purported benefits, they say, are at best wildly exaggerated.

Under present law, over half of all

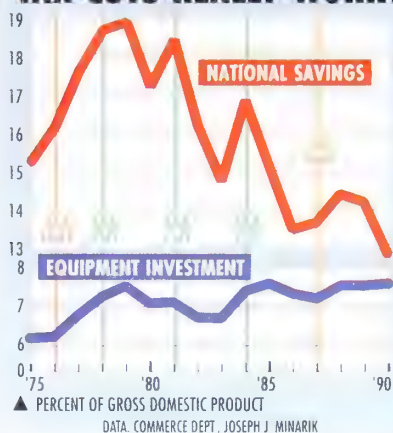
Since 1975, capital-gains taxes have been raised twice (in 1976 and 1987) and lowered three times (in 1978, 1981, and 1984). And as the chart shows, the behavior of U.S. savings and investment in the wake of these changes was exactly the opposite of that predicted by tax-cut advocates. National saving as a percent of gross domestic product (which includes government, business, and household savings) fell sharply in the years following each of the three capital-gains tax cuts. And it rose significantly on the heels of each of the tax hikes.

To be sure, national saving in the 1980s was obviously far more affected by the soaring federal deficit than by shifts in capital-gains taxation. But saving by households exhibits the same basic pattern. Notes Minarik: "In the early 1980s, taxpayers received two capital-gains tax cuts, a dazzling array of other tax incentives for saving, and record-high real-interest rates, but the personal-saving rate fell like a stone." In contrast, since the repeal of the capital-gains exclusion, the personal-saving rate has stabilized and trended higher.

As for investment, commercial real estate did soar after the 1980s capital-gains tax cuts went into effect. But investment in equipment, the heart of productive business investment, traced the same perverse trends as overall savings did—rising after capital-gains tax hikes and falling after tax cuts (chart).

Given the complex factors influencing economic behavior in the real world, none of this proves definitively that a capital-gains tax cut would not stimulate some savings and investment. But Minarik maintains that recent history does suggest that such positive effects would be minimal. "The burden of proof," he says, "rests with those who would reduce the taxes of the wealthy for benefits that appear dubious."

DO CAPITAL-GAINS TAX CUTS REALLY WORK?



capital gains are currently untaxed anyhow, either because they accrue to tax-exempt pension funds, or to foreign owners not subject to U.S. taxes, or because assets held until death escape such taxation. Taxpayers are also able to defer taxes on unrealized capital gains until years when their overall tax liability is low. The upshot, note tax-cut opponents, is that the effective tax rate on capital gains is already under 10%.

Such details are unlikely to temper the zeal of tax-cut advocates. But in an article in the current issue of *Contemporary Policy Issues*, Joseph J. Minarik, chief economist of the House Budget Committee, points out that economists studying capital-gains taxation "have the benefit of a series of uncontrolled experiments in the real world: multiple changes in tax treatment of capital gains over the past two decades."

IS JOHN Q. PUBLIC'S DEBT LOAD EASING? WELL, NOT REALLY...

By one measure—installment debt as a percentage of disposable income—consumers have made considerable progress in reducing their oppressive debt burdens. This critical ratio has fallen from 18.5% in early 1989 to 16%, its lowest level in six years.

Economists L. Douglas Lee and M. lene Grabau of County NatWest/Washington Analysis point out, however, that declining auto loans account for almost all of the reduction. In fact, nonauto installment debt has slipped by only half a percentage point of disposable income since mid-1990. And as *BUSINESS WEEK* noted recently, (BW—July 20), home equity loans and auto leasing have picked up much of the slack in auto credit.

Indeed, mortgage debt (including home-equity loans) continues to reach new heights, rising from 59.4% of disposable income at the start of 1989 to 65% at last count. And that, observes Lee, means that "total consumer debt as a percent of personal income has yet to decline." Thus, while falling interest rates and mortgage refinancings have reduced households' actual interest-payment burden over the past year, consumers in today's uncertain economic climate may be more concerned about the still-hefty size of their total obligations than they are heartened by a drop in interest payments.

...AND REFINANCING DOESN'T ALWAYS GIVE CONSUMERS MORE CASH

Concern over the size of debt obligations isn't the only reason consumer spending has remained depressed. Another is that mortgage refinancing is putting less cash in consumer pockets than the statistics suggest. For one thing, refinancing involves hefty ancillary costs, such as points and other fees. Experts say it takes homeowners a year or so just to recoup such costs.

The steep yield curve is also encouraging many households to replace 30-year mortgages with 15-year obligations. That reduces interest payments but does not necessarily total monthly payments, since borrowers amortize their mortgages more rapidly. In essence, such households are tying themselves into forced savings plans that leave little extra cash to finance increased spending.

PENSION-FUND RETURNS ARE BOOSTING THE BOTTOM LINE

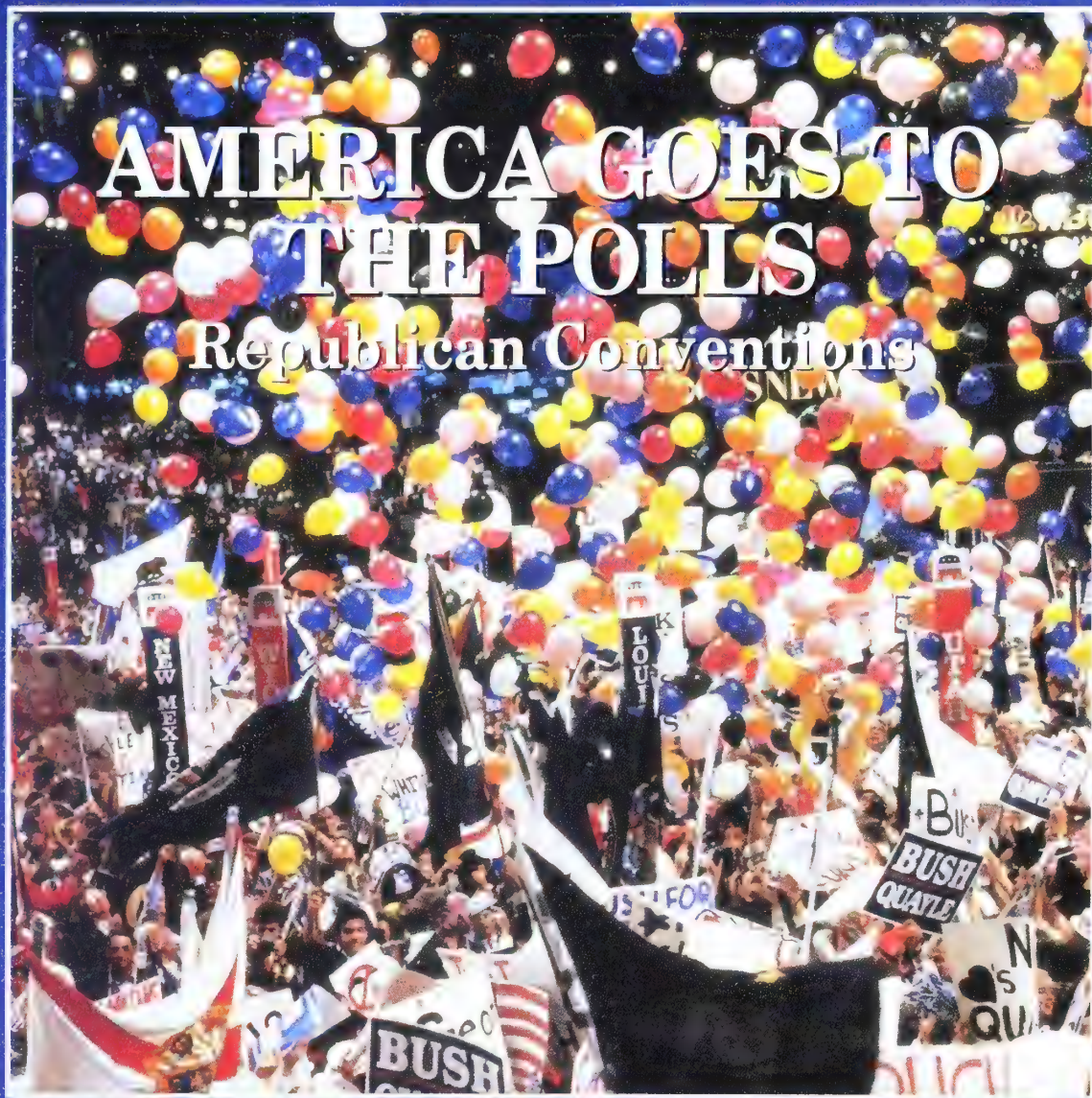
Corporate profits are getting a helping hand from financial markets. Wyatt Co., a consulting firm, reports that last year, the median return on retirement funds of U.S. companies was 25.1%—and 18.6% more than salary increases.

The combination of healthy investment returns, modest salary hikes, and job cutbacks indicates that pension assets have been growing far faster than liabilities. And that, says a Wyatt spokesman, means lower future pension-fund contributions, with the savings "flowing directly to the bottom line."



AMERICA GOES TO THE POLLS

Republican Conventions



Bill Pierce/Time Magazine

This brief history of the Republican Convention is the third of four such essays that ITT is presenting in the course of the election year.

Whatever our political beliefs or party affiliations, we all have a stake in the outcome of our electoral process. One way to encourage broad participation in the political process, we believe, is to help Americans understand how the system works and where it came from. Its importance cannot be overemphasized; our present and future depend on it.

Rand Araskog

Rand V. Araskog,
Chairman, President, and CEO, ITT

When the first Republican National Convention gathered in Philadelphia in June 1856, the party was only two years old but already a major national force. It was a product of a political crisis centered on the issue of slavery. Antislavery forces in both major parties — the Whig and Democratic — wanted to prevent slavery from expanding into the western territories, which were clamoring for statehood. Proslavery forces, also in both parties, were defending their right to extend the South's "peculiar institution" westward. As disagreements escalated to intolerable levels in the mid-1850s, both parties in effect dissolved and a new party

Third in a
series of
messages
from

ITT



system emerged. The Democratic Party survived institutionally, although with a dramatically changed constituency. And a new party, squarely committed to resisting the spread of slavery, attracted a coalition of former Whigs and former Democrats. The party formally launched itself at a meeting in Ripon, Wis., in March 1854; several months later, it adopted the name "Republican."

Almost immediately, the party showed remarkable strength. In 1854, it elected enough representatives to Congress to permit it to organize the House of Representatives (in a coalition with other groups) and elect the Speaker. By 1856, it had replaced the Whig Party as the principal alternative to the Democrats. At its first national nominating convention, it chose as its Presidential candidate the explorer John C. Fremont. And it adopted a platform calling on Congress to bar slavery from the territories. Like the Whigs before them, the Republicans were more inclined than the Democrats to support government funding for such great public projects as the transcontinental railroad. And like the Democrats, most Republicans insisted that they were not abolitionists, that they wanted to stop slavery from expanding but that they would leave it alone where it already existed. Fremont lost in 1856 to the Demo-

crat James Buchanan. But he received a third of the popular vote, a remarkable showing for a party only two years old.

By 1860, the Democratic Party was deeply divided over the slavery

Lincoln won the

Presidency with under

40% of the popular vote.

issue and the Republicans were preparing to profit from their opponents' disarray. At the Republican Convention in Chicago, after pro-

longed and intensive bargaining, party leaders settled on a candidate of firm, but not radical, antislavery views: Abraham Lincoln of Illinois, a former member of Congress who had won national attention two years earlier during an unsuccessful campaign for the Senate. Profiting from a three-way division in the Democratic Party, Lincoln won the Presidency with under 40% of the popular vote. His election helped precipitate the Civil War. It also identified the Republican Party secure with what was then called the North, with the cause of the Union, later with the abolition of slavery, and ultimately (after his assassination in 1865) with Lincoln himself.

For decades thereafter, Republi-

can Convention were almost always occasions for "wailing the bloody shirt," which meant reminding the electorate of the pro-Southern position of some Democrats during the Civil War and the Republican firm commitment to the Union. But after passing the 13th, 14th, and 15th Amendments to the Constitution and presiding over the controversial process of Reconstruction in the South, the party slowly retreated from active commitment to the rights of free slaves. Instead, it focused on promoting economic development, which included protective tariffs and generous subsidies to railroads. Its candidates in the late 19th century were generally safe, conservative figures not much



An 1860 Republican campaign poster for Abraham Lincoln and running mate Hannibal Hamlin.



interested in social or political reform. In that, they were usually quite different from the Democrats. In the early 20th century, however, the Republican Party again became a force for political change. That was in part because of the efforts of dynamic western progressive reformers such as Robert La Follette of Wisconsin and Hiram Johnson of California. But it was even more a result of Theodore Roosevelt of New York, who was nominated for Vice-President at the 1900 Republican Convention over the objections of some party leaders and who became President a year later on the death of William McKinley. Roosevelt was not as idealistic as his critics charged, but he did help infuse the party with the spirit of reform.

The 1912 Republican Convention illustrated the divisions that progressivism had created within the party. Reform forces considered President William Howard Taft, who had been elected to succeed

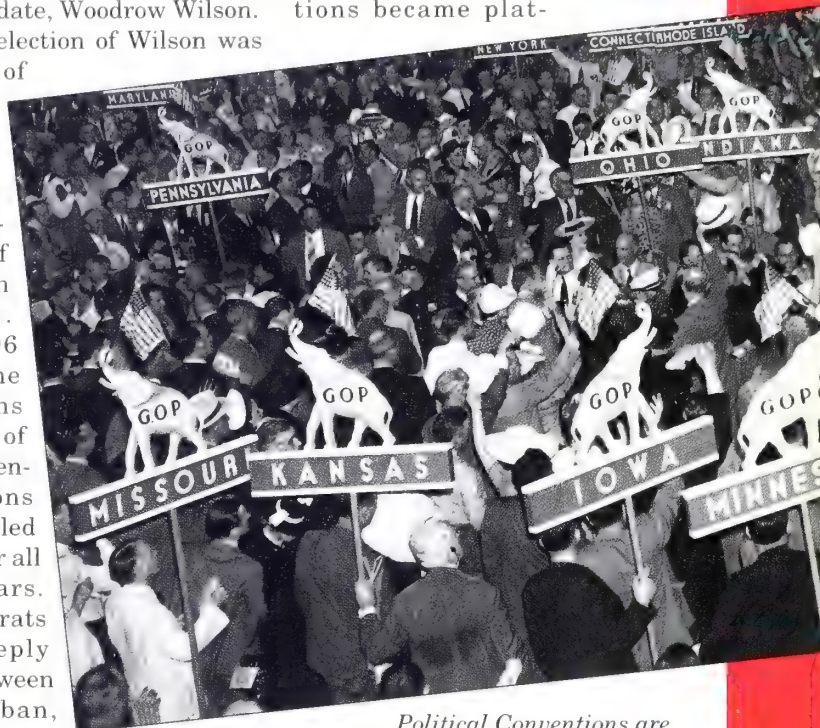
ing major parties but was unable to do so. In the end the new party split the Republican vote that fall and permitted the election of the Democratic candidate, Woodrow Wilson.

But the election of Wilson was something of an aberration in a long period of Republican dominance of American politics. From 1896 to 1928, the Republicans won seven of nine Presidential elections and controlled Congress for all but six years. The Democrats were deeply divided between their urban, immigrant wings and their southern and western agrarian wings. The Republicans enjoyed the united support of a broad, middle class coalition consisting primarily of white Protestants.

The Great Depression shattered the Republican Party's dominance of national politics and created a new Democratic coalition, led at first by Franklin Roosevelt, that dominated elections for most of the next 30 years. The Republicans revived in the early 1950s with the election of Dwight D. Eisenhower, and again, more decisively, in the late 1960s in the wake of the social and political turmoil that accompanied the Vietnam War.

Republican Conventions, with a few exceptions, have been calm and

generally harmonious, a reflection of the party's greater homogeneity. Beginning in 1964 and culminating in the 1980s, Republican Conventions became plat-

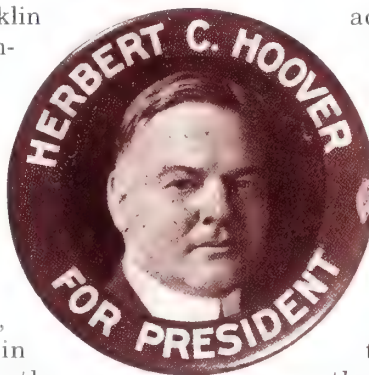


Political Conventions are always occasions for demonstration and ritual.

**Republican
conventions became
platforms for articulating
and promoting a more
assertive conservatism.**

Roosevelt in 1908, too conservative to entrust with the party's reform goals. Roosevelt had challenged the incumbent in the 1912 primaries and lost them all. But party leaders controlled enough delegates at the convention to deny him the nomination. Roosevelt and his supporters marched out in protest and formed their own organization, the Progressive (or "Bull Moose") Party, with Roosevelt as its Presidential candidate. Like most independent political movements, the new party failed to supplant one of the exist-

forms for articulating and promoting a new and more assertive conservatism. Nothing more clearly defined the Republican Party of our own time than the dramatic acceptance speeches of Ronald Reagan in 1980 and 1984. Nothing more decisively affected the 1988 Presidential election than George Bush's acceptance speech in which he tied himself to Reagan's legacy. The rise of the Republican right has given its conventions an ideological energy, even a sense of mission, that has helped transform the party and, with it, the American political landscape. ■



This text was written by Alan Brinkley, Professor of History, Columbia University

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for our pumps, his town
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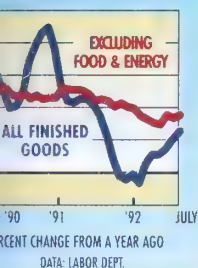
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BUSINESS IS TOO BUSY BAILING OUT TO SET A LONG-TERM COURSE

Higher productivity. It's every economy's mantra, because it gives everyone a bigger slice of the pie. And it's sure to be a phrase that politicians intone in a Presidential race that hinges so much on economic issues.

The way to achieve better productivity: long-term investments in job training, state-of-the-art machines, new buildings, and advanced technologies that generate more output per hour. Unfortunately, that's not the way America is going about it right now.

NO HEAT UNDER PRODUCER PRICES



The risks to corporate survival are real. Business failures jumped 16.8% in the first half of 1992, after setting a record in 1991, according to Dun & Bradstreet Corp. D&B says that failures, a lagging indicator, will rise further in 1992 as the weak economy continues to take its toll.

EFFICIENCY GAINS ARE LIKELY TO FADE

In this tense environment, productivity gains seem to be the by-product of corporate decision-making rather than a goal. Indeed, productivity is posting some impressive gains this year, but that's mostly because companies are keeping the lids on their payrolls.

Output per hour among nonfarm businesses rose at an annual rate of 2.3% in the second quarter, following a 3.8% increase in the first quarter. But in both periods, hours worked fell, as many companies continued to shed workers. Output is up a meager 1.8% during the past year, while hours worked are down 0.7%.

So far, the economy's productivity gains look like the usual cyclical advances that occur during and after a recession. But over the long haul, these gains are likely to fade because of America's poor record on investment. In the past decade, investment in new plants and equipment as a percentage of gross domestic product has fallen from 12% to 10%. Meanwhile, such investment in Germany, for example, has risen from 11% to 14%. Clearly, global competition requires more than lean payrolls.

For now, the combination of cost-cutting and productivity gains does have one major benefit: lower inflation. Unit labor cost determines the underlying pressure on companies to raise prices. And the productivity report shows that the cost of workers producing a single unit of output barely rose for the third consecutive quarter.

The numbers are impressive. Growth in wages and benefits has slowed from a yearly pace of 5% in the second quarter of 1991 to just 3.3% last quarter. At the same time, productivity growth has taken a 180-degree turn. It was declining by 0.6% a year ago, but since then has risen by 2.6%. The result of these two trends: The pace of unit labor costs has plummeted from 5.6% a year ago to a scant 0.7% in the second quarter—the slowest yearly pace in more than eight years.

The slowdown in unit labor costs makes inflation in the 2%-to-3% range for 1992 and 1993 a real possibility. In fact, bond investors are lowering their inflation expectations. Bond yields at 7%—and 30-year mortgage rates below 7%—now look likely.

The latest price reports look tame. Producer prices of finished goods rose 0.1% in July. During the past year, inflation for factory goods is running at a cool 1.8%. The core rate, which excludes food and energy, is only 2.6% (chart, left). Moreover, the Commodity Research Bureau's futures index of commodity prices hit a six-year low on Aug. 11.

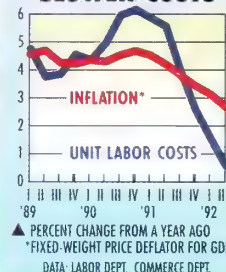
With pricing power so weak, Corporate America's recent success in boosting profits is largely the result of fatter margins. While economywide inflation—measured by the GDP fixed-weight price index—has slowed, unit-labor costs have decelerated even more sharply (chart). That means businesses can make more money even when sales are weak. However, sustained profit growth requires stronger demand.

JOB GAINS ARE DEAD IN THE WATER

But there's the rub. Businesses are putting themselves into a great position once the economy picks up. But right now, job growth is suffering greatly as businesses try to get by with fewer workers. This structural change is the biggest reason why consumers remain skeptical that the U.S. is in a recovery—and that's why their purse strings are so tight.

True, the employment picture looks better now than it

SLOW PRICES, SLOWER COSTS

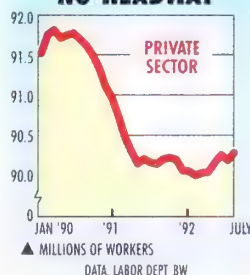


Business Outlook

did on July 2, when the Labor Dept. released a stunningly bleak report on June employment. In a rosier-looking July report, Labor said that nonfarm payrolls grew by 198,000 slots last month, and the drop in June jobs, originally reported at 117,000, was revised to only 63,000. In addition, the unemployment rate edged a bit lower last month, down to 7.7%, from June's 7.8%.

But the cheerier news only masked the churnings in the labor markets caused by cost-cutting. One-third of the new jobs were in the government sector, and most of those came from an expansion of federal programs that provide temporary summer jobs for teenagers. When these youths head back to school, government payrolls will show a big drop, probably in September.

JOBS ARE MAKING NO HEADWAY



Private employment added 110,000 jobs in July, barely reversing 82,000 jobs lost in June. After a sharp drop during the recession, payrolls have gained almost no ground (chart). Factory employment was up by just 1,000 jobs in July, as a loss of 17,000 defense-related positions offset gains elsewhere.

Even as manufacturers hold the line on hiring, though, they are keeping the workweek at a fairly high level. The factory workweek was unchanged from June, at 41.5 hours. Long hours are another sign of the campaign to get the job done with fewer workers.

That's even truer among the ranks of white-collar workers. Companies are making serious, structural changes by eliminating many managerial positions. During the past year, for example, 69% of factory job losses have been in nonproduction workers. More than likely, these are not layoffs but permanent job cuts.

In another move toward belt-tightening, businesses are meting out smaller pay increases. Nonfarm wages were

unchanged last month, at \$10.58 per hour, and factory pay rose 1¢, to \$11.45. Nonfarm hourly pay is growing at its slowest rate in five years.

THIN WALLETS AND FAT IOUs

The weak gains in income are putting a squeeze on consumer spending. And the debt buildup of the 1980s means that many households are unable to use credit. Less borrowing is another reason why consumers are providing their usual post-recession spending boost.

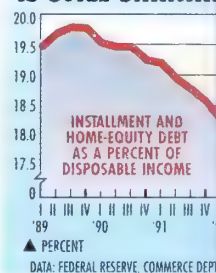
Consumer installment credit fell by \$1 billion in July, its fifth drop in a row. The nearly two-year decline in installment debt outstanding is the steepest on record.

But not all of that decline reflects an aversion to borrowing. Home equity lines of credit are replacing some of the traditional installment debt. Since early 1990, home equity loans have risen by some \$8 billion, while other types of installment credit has slipped by \$12 billion.

Even with the growth of home equity loans, households are paring down their debt burden. Installment debt plus home equity loans stood at 18% of aftertax income last quarter, down from a record high 19.9% in the third quarter of 1989 (chart). That trend will continue in an era of job insecurity and miserly raises.

Increasing the efficiency of workers could alleviate some of these worries, because higher productivity would mean better wages without higher inflation or lower profits. However, generating greater efficiency will take a bigger commitment on the part of corporations to invest in technology and training. Right now, though, business executives are concentrating on short-term survival rather than long-term prosperity.

THE DEBT BURDEN IS STILL SHRINKING



THE WEEK AHEAD

HOUSING STARTS

Tuesday, Aug. 18, 8:30 a.m.

Housing starts probably increased moderately in July to an annual rate of 1.2 million, from a 1.17 million pace in June. That's the expectation of economists surveyed by MMS International, a division of McGraw-Hill Inc. The housing recovery, which began in early 1991, started to falter in the first half of 1992, as jobs and incomes did not grow fast enough to boost home buying. Mortgage rates fell sharply in July, however, after the Federal Reserve cut short-term interest rates. These cheaper rates—now at their lowest in 19 years—have probably revived the housing market somewhat in the summer. And a rise in consumer

demand likely caused builders to pick up their hammers once again.

MERCHANDISE TRADE DEFICIT

Wednesday, Aug. 19, 8:30 a.m.

The foreign trade deficit likely narrowed in June, to about \$6.5 billion, after increasing to \$7.4 billion in May. The MMS economists expect that exports rose after three consecutive declines. And imports also increased in June, but by a smaller amount. Imports had fallen by 1.4% in May.

INITIAL UNEMPLOYMENT CLAIMS

Thursday, Aug. 20, 8:30 a.m.

New filings for state unemployment benefits likely dropped back to an annual rate of about 430,000 for the week end-

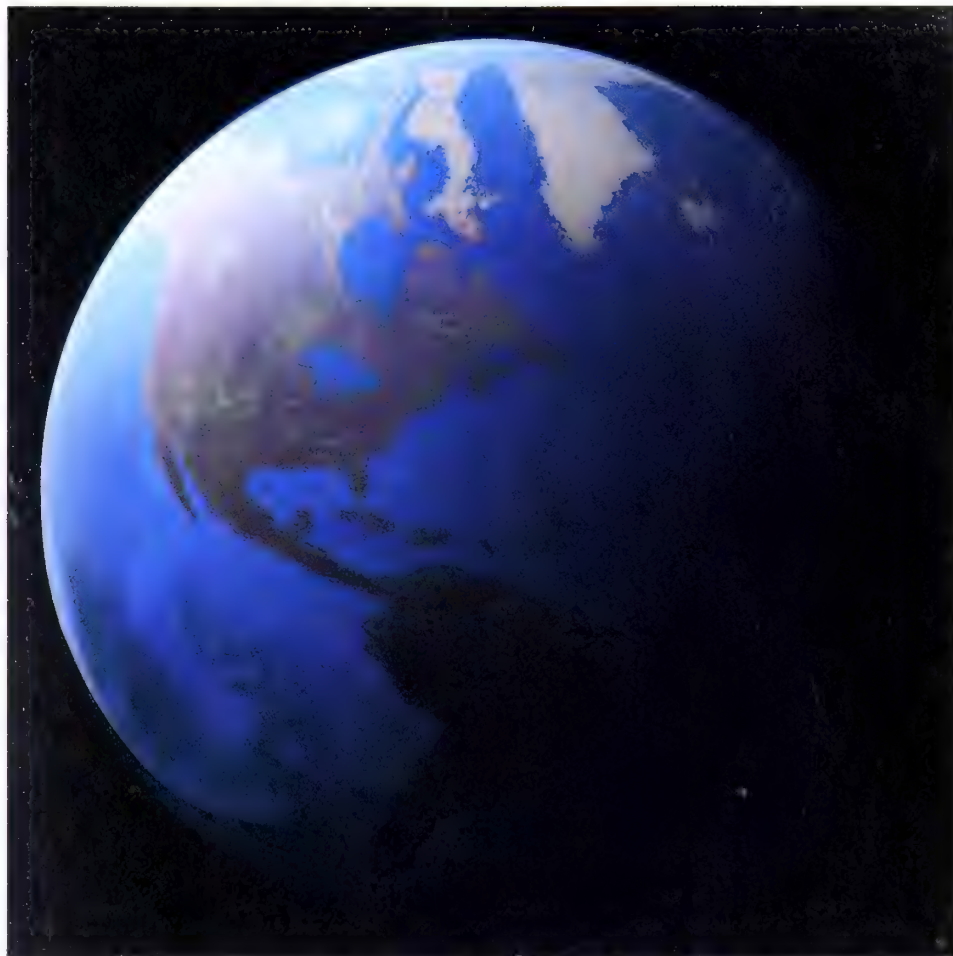
ed Aug. 8. Claims had skyrocketed late July as plant closings by General Motors Corp. temporarily pushed tens of thousands of auto workers onto the employment lines. Those layoffs boosted new claims to an annual rate of 469,000 in the week ended July 25.

FEDERAL BUDGET

Friday, Aug. 21

The U.S. government is likely to announce a deficit of about \$30 billion in July. That would be less than the \$35 billion budget gap reported for July 1991. Slower payments for thrift withdrawals are stanching some of the red ink flow. For all of fiscal 1992, the Treasury Dept. is expected to post a deficit of \$300 billion to \$315 billion.

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AUGUST 24, 1992

THE GREAT GOP DIVIDE



After years of unity and dominance, the Republicans are riven and vulnerable

Right about now, Republican convention-goers from Augusta to Anaheim should be a giddy bunch. Time to pack up the old kit and dust off that goofy hat. Time to in on the convention medals that make delegates resemble nothing so much as preening Third World colonels.

But as the party's Aug. 17-20 convention in Houston draws near, something is clearly amiss. When Republicans are fired up, their voices can be heard baying for liberal prey clear across the land. Yet as the party faithful prepare to anoint George Bush in his adoptive hometown of Houston, the chants of "Four more years" are muted. Instead, there's growing anxiety over the GOP's ability to hang on to the White House, indeed, over the very soul of the Grand Old Party itself.

Inside the Republican "big tent," it's not a pretty picture. New Right activists are battling paleo-conservatives. Tax-cutters are jabbing fingers at budget-hangers. Prochoice GOP women are barking on speaking terms with their anti-abortion counterparts. And party theorists admit that despite heated debate, Republicans have failed to come up with a post-cold-war agenda—or an economic strategy that rises above Reaganism and Bush's drifting incrementalism.

Is this any way to kick off a convention? Hardly. But then, Houston won't be your typical fun-in-the-sun revel. The woes go beyond Bush's dismal poll standings or the belief among staunch supporters in the business community that his economic policies have flopped (page 28).

'UNIQUE CONTRIBUTION.' There's a concern that the coalition of diehard conservatives, suburban independents, and blue-collar workers that carried Republicans to the White House in five out of the past six Presidential contests is unraveling. "Normally, party dominance in Presidential elections runs in cycles of 28 to 36 years," says analyst Kevin Phillips, who believes revulsion against Republican economic excesses is tilting the balance of power. "George Bush's unique contribution will be to accelerate that timetable," he says. "The fact that Bush had to face the likes of Dan Quayle and Ross Perot is only a symptom of a broader decline in the coalition."

Many Republicans dispute this notion. Says Alan Heslop, a political scientist at California's Claremont McKenna College: "Fascinating as Phillips' demographic theories are, Bush's major problems are a rotten economy and the fact that in Clinton, he is facing the best, most silver-tongued challenger Democrats have put up in a long time." I-

such disclaimers, signs of deeper trouble abound. Among them:

Rebellion in the ranks. Typically, Democratic conventions are New Age festivals where the party's eccentric factions meet in full plumage. By contrast, GOP slaves are displays of robotic harmony. Not this time. While the Democrats' New York contingent went off with the precision of a Rockwell matinee, guess Republicans are

adding the days leading up to the Houston hoedown? You're battling over abortion. You're buzzing over a renewed movement to dump Vice President Dan Quayle and the press accounts of Bush's alleged extramarital affair. They're watching Housing Secretary Jack F. Kemp's latently feverish attempt to perle the budget amendment with his stand-pat economic plan in favor of a dramatic round of tax-cutting. "Tax simplification, expanding the economy, energizing the inner cities—that's the kind of precious agenda the President needs," raves Kemp. "Negative attacks on Clinton won't do the trick."

Bush Agonistes. Propelled by an upbeat message of change, Clinton holds a lead, if not necessarily deep, 20-point lead over Bush. Even with a boffo House show, White House strategists fear the President could still be staring at a point gap after Labor Day. "To win, I have to stage one of the most re-

markable political comebacks in history," concedes one Presidential adviser.

The econo-swamp. After four years of anemic growth, the buoyant economy Bush needs to float past the Democrats just isn't materializing. July unemployment declined a tick, to 7.7%, but 10 million Americans are out of work, consumer confidence has plunged,



CAMPAIGNING AT A PICNIC: STALWARTS DISMISS SIGNS OF TROUBLE

and the jobless rate in California and key industrial states is well above the national average. In the Golden State, source of 54 electoral votes and birthplace of the Reagan Revolution, the picture is especially grim. With his 100s bouncing all over California, Governor Pete Wilson has found it necessary to skip the convention. As a measure of just how grim White House aides consider the economic climate, consider this bit of gallows humor from one of Bush's top advisers: "What's the difference between Jimmy Carter and George

Bush? Carter had more housing starts."

The agenda gap. Just days before an Aug. 20 acceptance speech that will be a pivotal moment in his quest for survival, no one in the GOP ranks has a clue as to what Bush will say when he finishes scourging "a certain governor of a small state" and tries to outline a compelling second-term agenda (page 26).

White House Chief of Staff Samuel K. Skinner has launched a sweeping domestic policy review aimed at filling in the blanks. And the Administration is humming with talk of expanding Bush's health plan and maybe stitching together a new job-training initiative. But after other such exercises, including the one that produced Bush's underwhelming January State of the Union address, the letdown has been enormous. "Millions of Americans are looking for a reason to vote for George Bush," says Michael K. Deaver, deputy chief of staff in the Reagan Administration. "He has given them no cause

to do that. Now, 'It's Morning Again in America' with Clinton."

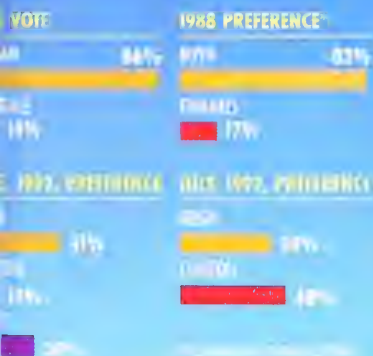
Backlash blues. For weeks, Republican pollsters have watched in alarm as signs grew of a possible backlash against GOP congressional candidates. When voters are asked how they intend to cast their congressional ballots in the fall, says GOP pollster Bill McInturff, "we're seeing Democrats open a double-digit lead." Bush is calling on voters to end gridlock in Washington by giving the Republicans control of Congress. But pollsters say this attempt to nationalize the elec-

THE MARCH OF THE SWING VOTERS



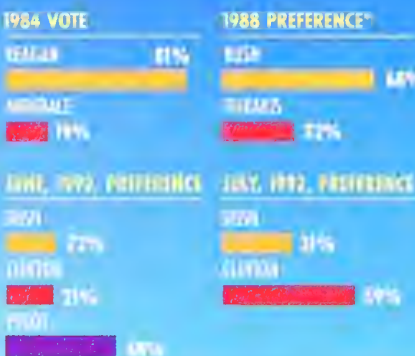
BEATS

Young, optimistic, firm believers in America. Moderates who loved Reagan's personality, not his politics. 13% of electorate



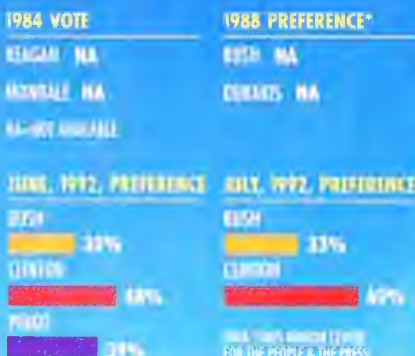
DISAFFECTED

Pessimistic, financially pressured. Historically Democratic, but voted GOP in last three Presidential elections. 10% of electorate



BYSTANDERS

Young, predominantly white, apolitical, uninformed, poorly educated. 9% of electorate



tion may misread the mood of angry voters, who are taking aim at all incumbents—and could reserve special ire for Republicans if the election becomes a referendum on Bush's economic stewardship.

Many of these problems are short-term, and GOP political operatives agree that few are insurmountable—especially with Secretary of State James A. Baker III riding to the Bush campaign's rescue with six-guns blazing. More troubling to Republicans in the long term is evidence that under Bush's tenure, the alliance of economic conservatives, social conservatives, suburban independents, and Reagan Democrats has fractured.

Economic conservatives, though they

may yet drift back, consider Bush's perfidy on his "Read my lips" tax pledge an act of surpassing treason. "Bush has just thrown these people away," fumes Adam Meyerson, editor of the Heritage Foundation's quarterly *Policy Review*. "Conservatives feel his economic policies have been so disastrous, Clinton couldn't be much worse." Adds Burton Yale Pines, chairman of the National Center for Public Policy Research: "Kennedy, Roosevelt, and Reagan did not get people inspired with economic laundry lists. They did it with promises to 'Get the country moving again.' Bush's campaign credo seems to be: 'Prudent change—but not too fast.'"

Social conservatives, notably the reli-

gious right and anti-abortion forces, are still in the Republican corner, thanks to Bush's odes to "family values" and his opposition to abortion. But that very allegiance is driving a wedge through the ranks, as alarm over the Supreme Court's narrowing of *Roe v. Wade* propels suburban GOP women to pro-choice Democrats. "This is a very serious matter for the Republican Party," says Rutgers University political scientist Ruth B. Mandel. "It now has the option of seeing prochoice Republican women stay home on Election Day, cross over and vote for Democrats, or maybe vote for Bush."

Beginning in 1968 and throughout the Republicans' long ascent to President

Commentary/by Douglas Harbrecht and Howard Gleckman

IT'S NOT TOO LATE FOR BUSH TO GET 'THE VISION THING'

In 1988, George Bush dismissed the importance of offering Americans a clear picture of where he aimed to take the nation. He lacked "the vision thing," he shrugged. Big mistake. The Bush Administration's general aimlessness is a big reason why voters' have lost faith in his Presidency. Now, as worried Republican delegates prepare to rendezvous in Houston, Bush finds himself under intense pressure to show the nation a newly focused agenda for a post-cold-war future.

Even as the White House frantically sifts policy options for Bush's Aug. 20 acceptance speech, the President, lapsing into a bit of vintage Bushspeak, still derides the need for bold action. It's "all part of the change thing," he says. Yet if there is to be a second term, he'll have to bring to domestic issues the sort of sustained leadership he displayed in organizing Operation Desert Storm. "The electorate is just waiting for someone to say, 'I can transform the system if you want me to,'" says Bush campaign issues adviser James P. Pinkerton.

But will Bush rise to the challenge?

HYPERCAUTIOUS. Transforming the system is a tall order for a man whose watchwords have always been: "Don't mess things up." Just the same, there are ways that even the hyper-cautious Bush could help

cure the nation's ills. He could take real steps toward slashing the deficit, boost growth through tax incentives, and get a grip on soaring health costs. He could restructure the crazily askew relationship between the federal government

and the states and push Congress toward the internal reform it so desperately needs. With just a little imagination, Bush could still end up a successful two-term President.

He won't accomplish much without first tackling the deficit that has paralyzed his Administration for four years. Bush has spent his term trying to balance Ronald Reagan's view that the deficit doesn't matter with his own gut feeling that it's a major drag on the economy. This is the time for him to stop trying to pretend he's The Gipper's ideological heir. And that means no more "Read my lips—no new taxes" vows. No

more avoiding tough spending with clever changes in the budget process. Balancing the budget means cutting spending and raising taxes—

Bush could put together a plan to cut the deficit in half by 1995. He ought to make certain that all Americans share the burden fairly. And until earlier, halfhearted efforts, they must show results. The payoff: With the deficit on a downward track, Bush's lean on Federal Reserve Chairman Greenspan to keep interest rates low. **BITTER BATTLE.** How to do it? For starters, Bush might adopt part of Reagan's game plan and tax Social Security benefits the same way private pensions are taxed. Then, he should tackle the biggest spending programs—health care—by requiring middle-income earners to pay a bit more. Together, the two programs soak up \$400 billion of the \$1.4 trillion annual federal budget.

also needs to dump quaint relics as the Electrification Administration and Radio Free America. But Bush's second term needn't be all pain and agony. The purpose of fiscal policy is to encourage economic expansion. Bush needs to renew his focus on growth.

For four years, the president has been fighting a frustrating battle with Congress over capital-gains taxes. And he has major support for a plan that would cut taxes on investment. But he sabotages his



★ NOTES ON A SECOND-TERM AGENDA ★

George Bush may have trouble spelling out a bold vision. But tackling a few real-world projects could make the President's second term a success.

CUT THE DEFICIT: Bush could cut the \$230 billion annual federal budget deficit in half by leading a war on entitlement growth. And real action to narrow the gap would spur the economic recovery.

HEALTH INSURANCE FIGHT: Third-term Mr. President, Conservatives' opposition to comprehensive universal health care is a major barrier to economic growth. And it's a major barrier to the health of the nation.

IMPROVE A BADLY RUN AGENCY: The Federal Reserve Board is a major barrier to economic growth. And it's a major barrier to the health of the nation.

REPEAL A BAD LAW: The Federal Reserve Board is a major barrier to economic growth. And it's a major barrier to the health of the nation.

er, the support of ethnic, blue-collar Democrats has been essential to victory. Resistance to taxes, plus appeals to patriotism and the skillful exploitation of racial tension, usually succeeded in keeping these nominal Democrats in the GOP column. But after four years of having swallowed Dr. Bush's less-than-amazing economic elixir, some of these Reagan Democrats are ready to bolt. "They're much more ready to be Democrats than Reaganites," says Democratic strategist Peter Hart.

ATTENED PENSIONS. Moreover, "look at some of these older suburbs, and you'll find 55-year-old men who thought Africa was on top of the world when they were in the service," says Phillips. Now, they wonder whether their jobs and pensions are going to be there. Bush

has done squat for them, which is why they drifted to Perot and are now with Clinton."

There are more discouraging portents for the GOP. The bloc of under-30 voters, once a mainstay of Reagan's support, has left Bush City in search of the over-the-horizon glow of Clinton-Gore Camelot (charts, page 25). Dan Quayle's claim to be a generational lure for these younger voters now seems, like so much else about his selection, to be laughable. And while the Vice-President struggles to rally fractious GOP conservatives, an unruly crop of party rivals, among them Kemp, Texas Senator Phil Gramm, Pat Buchanan, and former Bush drug czar William J. Bennett, are already looking past Quayle in preparation for a bruising Presidential slugfest in 1996.

None of those fault lines will be readily apparent when the hordes inside the Astrodome start chanting their huzzahs. But look beyond the bombast, and you may conclude that Houston looms less as celebration than an elegiac gathering of some lost and angry tribe.

To understand why, consider these musings from Lyn Nofziger, a diehard Reagan loyalist: "Bush is in serious danger of losing this thing. I'm not sure this is all bad. Parties get tired. They can stay in the White House too long. After a while, they just govern. It can take a defeat to remind them of what they stand for. So if we don't lose this time, we'll lose next time. Because we're old. We're old, and we're tired."

By Lee Walczak, with Richard S. Dunham and Douglas Harbrecht, in Washington

every time he insists the cut revenues to the budget. Instead, I propose the tax cut along with the rest of paying for it. That would be the 1990 budget agreement's debt tax cuts be offset by revenue cuts. He should also include new taxes for business investment in capital, perhaps with a temporary cut. And as a long-term project, to plow the ground for proposals to double taxation of corporate

to cut the deficit sustained without the nation's health care. But the President's plan, built on health care vouchers and credits for low-income families is too, well, It tinkers with the problem, won't cover as much as it should, and would do little to contain costs.

is an alternative. We should embrace a pro-market plan, pro-protected by conservatives and many others. The plan would allow employers to deduct benefit expenses only if they buy coverage from lower-cost, managed-care networks. The deductions would be limited to basic coverage—employees would get no tax breaks for extravagant benefits. The plan would protect the poor and help workers who otherwise couldn't afford it.

ould have to take on employers' share of loss of their tax deduction in a managed-care world. But the up and fighting is what second term is supposed to be for. President also could back his "new

federalism" rhetoric by giving the states real freedom to innovate. Bush talks of experimentation, but when Oregon came up with a radical new approach to medical aid built around medical rationing, he rejected it. "The confused relations between state and federal governments have only added to the sense of gridlock," says economist John F. Cogan of the conservative Hoover Institution. "Bush could rationally sort out government responsibility." That would require

programs aimed at retraining workers.

Overseas, Bush needs to refocus his attention. First and foremost, "we need a Japan policy," says Ellen L. Frost, senior fellow at the Institute for International Economics. Bush doesn't have a single Japan expert among his top cadre of foreign policy aides. A national security adviser with an economics background would be a good start. And on the trade front, instead of reacting to whichever domestic industry makes the most noise,

the Administration should decide which industries and technologies will be key to U.S. competitiveness and focus its market-opening pressure in those areas. Picking winners and losers? No, that's setting priorities.

Bush could do the same with Congress. Although they usually resent outsiders' advice on how to run their affairs, lawmakers could use a hand in cleaning their Augean stables. Bush should embrace a bipartisan effort to streamline the complex web of committees and cut the Hill's \$3 billion-a-year budget.

In New York last month, Democrat Bill Clinton compared Bush to ill-fated Civil War General George B. McClellan, who built a great army but refused to use it. Privately, a lot of Republicans now are making the same point. The Presidency is the most powerful office in the world. But in his first four years, the self-proclaimed "foreign policy" President was never willing to lead the charge on the domestic front. Unless he has a better battle plan for the next four years, even the glow of a stunning come-from-behind victory in November will fade in the cold light of a visionless second term.



RETIREES AT PLAY IN ARIZONA: ALL SOCIAL SECURITY COULD BE TAXED

Washington to bear the full burden of some programs while turning over others completely to the states. For example, the feds could take charge of medical aid and let states assume control of aid to families with dependent children.

MILITARY SAVINGS. To complete his budget plan, Bush must come down hard on the Pentagon by setting national security objectives and figuring out what it will cost to achieve them. He should dump unnecessary weapons systems and end the duplication of roles among the services. To cushion the blow, Bush could spend at least some of the savings on

BUSH CAN'T EVEN COUNT ON THE CORNER OFFICE

CEOs still mostly back the big boss—but with notably little enthusiasm

Reagan Democrats are deserting the Grand Old Party. The gender gap is wider than ever. California is all but lost for George Bush. Even his home state of Texas is up for grabs. But for solace, the President can always look to Corporate America, right?

Maybe not.

On the record, most chief executives are Bush backers. Scratch a little, however, and it's clear that support is weak among corporate chieftains. They fault Bush for failing to push his domestic agenda, then blaming Congress. "That's an insufficient answer," complains one CEO who has raised money for Bush. "His job is to be as persistent with Congress as he has been with the Arabs and the Israelis."

Indeed, just when Bush needs the support most, the GOP's lock on America's executive suites may be cracking. A few big-name CEOs now say they'll vote for the change that Democratic candidate Bill Clinton promises. Among them: Xerox Corp. Chief Paul A. Allaire and Sara Lee Corp. CEO John H. Bryan. "Clinton will invest in America so our competitiveness is improved," says Allaire. "It won't be just spending." Others appear to feel the same way: On Aug. 10, Clinton met in New York with 26 CEOs who back him or are leaning his way.

DUMP DAN. There's more bad news for Bush in BUSINESS WEEK's new poll of executives (page 29). It shows strong dissatisfaction with his economic management: 76% rate it fair or poor. A staggering 61% think he should dump Vice-President Dan Quayle. But Clinton's

program gets mixed reviews, too, with most respondents nixing his health care, tax, and employee-training plans.

Certainly, there is no rush to Clinton among CEOs. But frustration and anger with Bush is spilling into the open. "We have no national agenda," griped TRW Inc.'s Joseph T. Gorman at an auto conference on Aug. 5. "The fabric of our society is coming apart, and we're not getting the leadership we need."

It's bad enough there is little confidence that Bush is steering the right economic course; worse, there's no enthusiasm for a Bush second term—even among rock-ribbed Republicans. "People look at his lack of action, and they've projected the Republicans as the party that can't do anything," says Howard P. Allen, retired chairman of SCEcorp, where he heads the board's executive committee. "My father would turn over in his grave, but we need some sort of a WPA-type program—more action to encourage investments."

Chrysler Corp.'s Lee A. Iacocca, who for a while backed Ross Perot, sees defeat in Bush's inaction: "I told Bush, 'We're losing 80 to nothing at the half,' and urged a change in the game plan. And he's telling people, 'Stick with the plan. Don't change anything.' He's going to lose." Other CEOs

agree that to win, Bush must announce a major program to address the country's deep concerns about the future. Says ARCO Chairman Lodwick M. Cook, a big Bush fund-raiser: "The President has to respond to the things that are being said about his inability to deal with the economy."

Bush's economic policy isn't the only thing troubling executives. They're struck by his seeming inability to make any domestic decisions. "This Administration takes one tack one day and another the next another day," says the chief of a Midwestern company. Many are mystified by his campaign behavior, too. "He's fallen behind, everyone is waiting on him to do something, and he isn't doing anything. No one knows why," says one.

How much trouble does this spell for the nation's CEO? At this point, probably not much. Clinton's campaign would like to release a list of CEO supporters, but some corporate stalwarts just won't be a Democratic lever. "I believe that government in the life of our society is best. Government doesn't create jobs, business creates jobs. Republicans do that better than Democrats," says Maurice R. Greenberg, CEO of American International Group Inc.

KEY CLINTON TEST. Others don't think Clinton has succeeded at product differentiation. "He's cloaking it well, but he's a tax-and-spend Democrat," says one CEO. Others fear a different specter. "Any businessperson who has thought of Clinton paired with a Democratic Congress will rush immediately to a ballot and vote for Bush," says Timken



★ 'My father would turn over in his grave,' says SCEcorp's Allen, 'but we need some sort of a WPA-type program'

★ 'Clinton will invest in America so our competitiveness is improved,' says Xerox' Allaire. 'It won't be just spending'



CEO W. R. Timken Jr. "Look at what happened last time, when Carter was the White House. We had 20% inflation and interest rates."

Clinton will soon have a chance to show he won't cave in to Congress and interest groups: in his reaction to the North American Free Trade Agreement, which unions oppose. Says one CEO: "Business is watching him on NAFTA. To win its support, Clinton must accept an agreement with only modest environmental and worker-retraining provisions."

Allaire believes Clinton can change the stereotype. "As more and more businesspeople listen to what he's saying, you'll find many will move away from their fear that he's a tax-and-spender. If he's right, that could be one major crack in the GOP's electoral coalition."

By Judith H. Dobrzynski in New York with Ronald Grover in Los Angeles

CORPORATE AMERICA KNOCKS THE ADMINISTRATION

THE GOP IS BAD—BUT DEMS MIGHT BE WORSE

Which of the following statements do you most agree with:

The Republican Administration has done a good job managing the economy under the circumstances and deserves another turn at the wheel	16%
The Republican Administration has done a rather poor job of managing the economy, but the Democrats could be even worse	58%
The Republicans have done a poor job of managing the economy, and the Democrats might do better	20%
The Democrats have a better approach to managing the economy, and they should get their turn	4%
Not sure	2%



W MARKS FOR BUSH

How do you rate George W. Bush's handling of the economy? Excellent, pretty good, or poor?

BUT CONGRESS SHAM

Please tell me whether you agree or disagree with the following statements:

Most of the economy's problems are due to congressional initiatives	58%
President Bush is trying to fix the fine print	58%
Policy shortcomings are negotiators also crack at Mexico	58%
Congress and President Bush's current troubles	58%
President Bush has spent too much on the capital	58%
Each a consensus on an	58%

BUSH'S EFFORTS HAVE B

How would you rate the following?

BUSH'S EFFORTS HAVE B

Assuring economic growth	58%
Creating jobs	58%
Combating inflation	58%
Reducing the deficit and government spending	58%

Resisting burdensome

new regulations	5%	40%	35%	18%	2%
Assuring fair trade with America's allies	8%	51%	32%	8%	1%
Keeping taxes down	7%	50%	27%	16%	0%

QUAYLE SHOULD START JOB-HUNTING

Do you think President Bush should keep Dan Quayle as his Vice-Presidential running mate, or should he pick someone else?	37%
Keep Dan Quayle	37%
Pick someone else	61%
Not sure	2%

CLINTON-GORE: NOT MUCH OF A 'NEW BREED'



KERKORIAN: LOOKING TO NAME BOARD MEMBERS



IACOCCA: A LAST-DITCH EFFORT TO KEEP POWER

Chrysler's biggest shareholder, Kirk Kerkorian, declared he was uncomfortable with Chairman Iacocca's planned Dec. 31 retirement. Kerkorian added that he would seek to name one or two board members. That bombshell dropped a few days after the two met in Spain on Kerkorian's yacht during the Olympics.

This simply isn't the time to resurrect doubts about Iacocca's willingness to relinquish control. Under pressure from other large shareholders worried about the succession issue, Chrysler's board last March tapped Robert J. Eaton, a former General Motors Corp. executive, as CEO-designate. Key insiders say that Eaton has quietly forged alliances with top Chrysler managers—including President Robert A. Lutz, whom he beat out for the top job. If Iacocca finagles too much power for his post-retirement position as head of the board's executive committee, he'll undercut Eaton.

SKEPTICAL BUYERS. Meanwhile, Chrysler's troops need to focus all their energy on launching new models. Cars such as the new LH midsize sedans must generate healthy profits, or Chrysler's comeback will stall. A quality problem or marketing blunder now could scuttle Chrysler's chances. Iacocca's shenanigans are a distraction. "The best thing for Chrysler would be if Iacocca would peacefully retire," says one former executive.

our view of the Clinton-Gore administration's economic proposals. Americans . . . 33% and the middle class in disguise . . . 64%

OMIC PLANS

Chen's economic proposals	33%	64%	3%
plans for each of the following	33%	64%	3%
Free Disagree Not sure	33%	64%	3%
smaller companies	33%	64%	3%
0% . . . 25% . . . 5%	33%	64%	3%
program partially funded	33%	64%	3%
33% . . . 64% . . . 3%	33%	64%	3%
go to college, with loans	33%	64%	3%
rough two years of	33%	64%	3%
50% . . . 39% . . . 1%	33%	64%	3%
employers to provide or	33%	64%	3%
exchange for federal	33%	64%	3%
4% . . . 75% . . . 1%	33%	64%	3%
200,000 a year	33%	64%	3%
32% . . . 67% . . . 1%	33%	64%	3%

says Daniel P. Waddell & Reed, Kansas City, Mo. "It's best for Chrysler to win a power struggle, most big work with private industry faced down by technologies he tried to delay."

The lesson Chrysler. Direct CEOs stay on person's vanity thousands of eers. Gifted as exception. If ciously, his b firmly into the

A FREE-TRADE MILESTONE, WITH MANY MORE MILES TO GO

The Bush Administration now faces the unenviable task of selling the pact to a suspicious Congress

There was champagne all around when negotiators from the U.S., Mexico, and Canada finally agreed on a historic free-trade pact in the early hours of Aug. 12. They had been holed up in Washington's Watergate Hotel for two weeks of almost nonstop haggling over everything from auto parts to oil rigs. After the toasts, officials lined a corridor outside the negoti-

ating suite and applauded as the trade ministers, Michael Wilks of Canada, Carla Hills of the U.S., and Jaime Serra Puche of Mexico, filed through to the Israelis. His job is to be hailed the birth of a huge unified market.

But now the Bush Administration team must run a more formidable gauntlet: selling the pact to a suspicious Congress and an electorate worried that the accord will cost the U.S. jobs. Environmentalists, nervous about pollution along the border from Tijuana to Matamoros, also are sounding alarms. And a new poll of voters in November, the political climate for the pact may have changed radically by the time a new Congress begins to consider it in earnest early next year.

'GHOST TOWNS.' Over the long run, the North American Free Trade Agreement looks like a winner for the U.S. economy. Building on a 1988 market-opening accord with Canada, NAFTA will sweep away tariffs and other barriers to create a \$6 trillion megamarket of 363 million consumers. U.S.

exports to Mexico, already America's third-largest customer, could soar. Taking advantage of low wages—a tenth of U.S. levels, in many industries—would allow U.S. companies to cut their labor costs to better take on their Japanese and European rivals. "By sweeping aside barriers, NAFTA will make our companies more competitive everywhere in the world," says President Bush, who can brag about the deal at the Aug. 20 Republican convention (page 24).

But Bush is reluctant to note there will be plenty of pain before benefits start to flow. Many high-paying manufacturing jobs will disappear as companies shift work to Mexico. While U.S. producers of wheat and poultry stand to gain, Russian and tomato growers will feel the pain of south-of-the-border competition. NAFTA progress will rush and vote for Bush. It's bad enough there is little confidence that Bush is steering the right economic course; worse, there's no enthusiasm for a Bush second term—even among rock-ribbed Republicans. "People look at his lack of action, and they've projected the Republicans as the party that can't do anything," says Howard P. Allen, retired chairman of SCE Corp., where he heads the board's executive committee. "My father would turn over in his grave, but we need some sort of a WPA-type program—more action to encourage investments."

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Allaire believes the stereotype. Businesspeople list you'll find market their fear that If he's right, the crack in the GO By Judith H. with Ronald Gro

That's not enough for many Democrats. "A free-trade agreement without environmental protection is like a balloon with helium," says Representative Ron Wyden (Ore.). "It's simply going to fly." How

orty Leader Richard A. Gephardt (Mo.) and Senator Max S. Baucus (D-Mt.) want the Administration to set up a fund to pay for cleanup and worker retraining. Baucus says this "free-trade adjustment fund" could be paid for out of existing tariff revenues, plus a 0.5% fee on cross-border trade for 5 to 10 years.

Congress will have plenty of time to deliberate over the pact. A final text of agreement won't be finished until November. Then the President must give Congress 90 days' notice before he signs it. After that, Congress and the Administration will consult on implementing legislation. Finally, the Hill gets working days to approve the pact, pushing the process well into next spring.

The White House had hoped to wrap up the NAFTA negotiations in time for Clinton to sign the pact before Election Day. Indeed, progress was swift earlier in the year. But the talks, which began months ago, bogged down as negotiators grappled with the most sensitive issues: autos, agriculture, and access to Mexico's protected energy market.

For starters, the U.S. wanted stiff rules to prevent Japanese auto makers from slapping Japanese-made parts together in Mexico, then sending finished cars into the U.S. duty-free. The final promise, which requires 62.5% North American content to qualify for duty-free import, disappointed Detroit's Big Three. "We are concerned that the agreement does not require a 65% auto-verse rule of origin," says Ford Motor Chairman Harold A. Poling. But the industry's real worry is not the figure itself but concerns about how local content will be defined in the fine print.

C PARTY. Mexican negotiators also rejected U.S. pleas for a crack at Mexico's energy sector. Yet U.S. economists say the final deal, which will let U.S. and Canadian companies eventually bid for 70% of procurement by Pemex, the state-owned oil monopoly, was more generous than expected.

Clinton completed NAFTA bargaining in sharp contrast to the stalled year-long multinational trade talks in GATT. Indeed, some European and Japanese officials fear NAFTA could further a tilt toward rival regional economic blocs. "Some [Japanese] companies have been operating in any of the five countries are very likely to be discriminated against," says Hajime Ohta, director of the international economic affairs department of the Keidanren, a Japanese big-business association. Creating a North American market that could toe-to-toe with super-Europe and Japan Inc. was the main impetus behind NAFTA. That Japan is howling suggests negotiators did their job well.

by Amy Borrus in Washington, with frequent reports

Commentary/by David Woodruff

MR. IACocca, PLEASE GO GRACIOUSLY

In a recent Chrysler Corp. TV commercial, Lee A. Iacocca strides toward the camera and says pointedly: "In the car business, you lead, follow, or get out of the way." After a dramatic 13 years at Chrysler's helm, it's time for the 67-year-old Iacocca to heed his own advice and step aside. No waffling, no hedging, no looking back.

Just as Chrysler's turnaround is accelerating, Iacocca has upset the company's hard-won equilibrium in a last-ditch effort to stay in power. On Aug. 7, his pal and, not incidentally, Chrysler's biggest shareholder, Kirk Kerkorian, declared he was uncomfortable with Chairman Iacocca's planned Dec. 31 retirement. Kerkorian added that he would seek to name one or two board members. That bombshell dropped a few days after the two met in Spain on Kerkorian's yacht during the Olympics.

This simply isn't the time to resurrect doubts about Iacocca's willingness to relinquish control. Under pressure from other large shareholders worried about the succession issue, Chrysler's board last March tapped Robert J. Eaton, a former General Motors Corp. executive, as CEO-designate. Key insiders say that Eaton has quietly forged alliances with top Chrysler managers—including President Robert A. Lutz, whom he beat out for the top job. If Iacocca finagles too much power for his post-retirement position as head of the board's executive committee, he'll undercut Eaton.

SKEPTICAL BUYERS. Meanwhile, Chrysler's troops need to focus all their energy on launching new models. Cars such as the new LH midsize sedans must generate healthy profits, or Chrysler's comeback will stall. A quality problem or marketing blunder now could scuttle Chrysler's chances. Iacocca's shenanigans are a distraction. "The best thing for Chrysler would be if Iacocca would peacefully retire," says one former executive.

That's not to belittle Iacocca's contributions. He snatched Chrysler from oblivion in 1980 by winning federal loan guarantees and nursing it back to health. Iacocca invented catchy marketing ploys, such as cut-rate financing and rebates, to move drab products such as the K-car. He also helped turn the minivan, now Chrysler's biggest product, into a runaway hit.

In recent years, however, he has lost touch. He steered Chrysler into non-auto businesses—only to sell them off. When profits rose, he bought back stock while neglecting new-product investment. And insiders say that he no longer understands the tastes of younger buyers.

TEAMWORK TIME. What's more, his autocratic management style is out of step with the teamwork ethic that is fueling Chrysler's comeback. The sexy Dodge Viper, rugged Jeep Grand Cherokee, and sleek LHs are hits in part because strong, independent design teams, fashioned after those of Honda Motor Corp., didn't cave in when Iacocca tried to countermand their decisions. The new products are mostly the work of Lutz and his lieutenants. "The product guys are the ones who are really turning this company around,"

says Daniel P. Becker, an analyst with Waddell & Reed Inc. in Shawnee Mission, Kan., a large Chrysler investor. "It's best for [Iacocca] to get out."

Whatever Iacocca does, he's unlikely to win a power struggle. Kerkorian aside, most big shareholders back Eaton and the board. Indeed, the board faced down Iacocca last spring, when he tried to delay retirement.

The lesson here goes well beyond Chrysler. Directors never should let CEOs stay on too long. That puts one person's vanity above the interests of thousands of employees and shareholders. Gifted as he is, even Iacocca is no exception. If he won't step aside gracefully, his board should nudge him firmly into the passenger seat.



KERKORIAN: LOOKING TO NAME BOARD MEMBERS



IACocca: A LAST-DITCH EFFORT TO KEEP POWER

A SCANDAL WAITING TO HAPPEN

Why did the alleged fraud at Phar-Mor go undetected for so long?

When Colorado officials were shopping around for investors for their Colorado Rockies expansion baseball franchise (page 69), Michael I. Monus of Youngstown, Ohio, looked like just the ticket. Monus, who had other sports interests, was the high-living president of Phar-Mor Inc., the \$3 billion drugstore chain. That was good enough for everybody. "We were comfortable with Monus," says Jerry McMorris, another Rockies investor. "Phar-Mor is a big company."

Until a couple of weeks ago, everybody was comfortable with Mickey Monus. Then, on Aug. 4, came a startling revelation. In an unfolding scandal that threatens the company's survival, Phar-Mor Chief Executive David S. Shapira has accused Monus, Chief Financial Officer Patrick B. Finn, and two others of masterminding a three-year, \$350 million fraud to siphon off some \$10 million in cash and overstate the value of the company's inventories and earnings. The FBI and the U.S. Attorney's office in Cleveland now are investigating Monus, who has disappeared. Through his attorney, he declines to comment. Shapira, who co-founded Phar-Mor with Monus a decade ago, says he's dumbfounded: "It's a scheme that couldn't possibly work in the long run."

Part of the reason the scheme worked as long as it did, a BUSINESS WEEK investigation has found, is that Monus operated with amazingly little oversight. In the past 10 years, Monus took stakes in, or purchased outright, more than two dozen companies. He also founded a fledgling pro basketball league and sponsored women's pro golf tournaments.

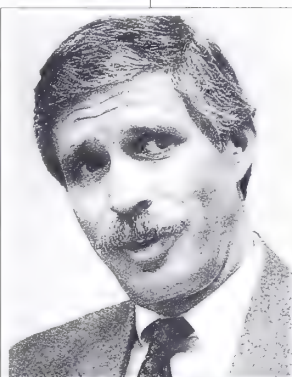
Along the way, the executive acquired

some powerful backers, including PNC Financial Corp. and Westinghouse Credit Corp. Youngstown shopping-mall magnate Edward J. DeBartolo and the prestigious Lazard Frères & Co.'s Corporate Partners investment fund took stakes in Phar-Mor. J.P. Morgan was the agent bank for the Rockies partnership deal.

Most of those high-powered outfits aren't commenting, and those who are talking have been pointing fingers. Colorado Governor Roy Romer says he thought the Rockies partners had investigated Monus. The partnership says it figured the National League did that job. The league says it's not taking any blame: "Since Phar-Mor didn't know about this until recently, I don't see how baseball could have known," a spokeswoman says.

For their part, Phar-Mor execs blame the company's outside auditor, Coopers & Lybrand, for much of their troubles. Coopers, which now has been replaced by Deloitte Touche, isn't buying it. "Responsible boards have oversight of their management and knowledge of their company's operations," says Harris J. Amhowitz, Coopers' general counsel. "This whole affair is unusual and apparently designed to posture, bluster, and transfer blame."

FAMILY BACKERS. Many of Monus' big-league ties seem to have been drawn in by Phar-Mor's blitzkrieg success. The drug chain, after all, took just 10 years to grow into a 305-store behemoth. In fiscal 1992, ended in June, revenues topped \$3 billion. It's true that financial information for private companies is scarce, but few investors seemed even to ask for details—indeed, one Phar-Mor



Phar-Mor co-founder Shapira accuses Monus and three others of a \$350 million scam

UNDER A CLOUD:
PHAR-MOR OFFICES
IN YOUNGSTOWN



backer says that he only started receiving actual financial statements this year.

Nonetheless, Phar-Mor had made some filings with the Ohio Securities Div. They show the drugstore chain made money in fiscal 1984 and 1985 and netted more than \$1.4 million in any of the next three fiscal years. In the six months of 1988, the latest period for which Ohio has a profit report, the chain made almost \$5 million on sales of \$462 million.



MONUS: AIMING FOR A SPORTS EMPIRE

THE RISE AND FALL OF MICKEY MONUS

1982 Michael "Mickey" Monus and David Shapira open first Phar-Mor store. Monus named president, Shapira CEO

1987 Monus launches World Basketball League. Phar-Mor grows to 68 stores

1989 Phar-Mor sales reach \$1 billion; chain grows to 162 stores

1990 Monus invests in the Colorado Rockies baseball team. Phar-Mor hits 200 stores; sales top \$2 billion

JUNE, 1991 Corporate Partners, a Lazard Frères fund, pays \$200 million for 17% of Phar-Mor

OCTOBER, 1991 Phar-Mor sells \$112 million more of stock in private placement

MARCH, 1992 Phar-Mor wins 33% increase in credit line, to \$600 million. Eleven insurance companies lend an additional \$155 million

JULY, 1992 Phar-Mor opens its 300th store; sales reach \$3 billion. Shapira investigates alleged embezzlement, fraud in Phar-Mor financials. Monus is fired

AUGUST, 1992 WBL folds. Monus gives up position as a Rockies partner, sells stake in the team, and disappears. Phar-Mor takes \$350 million charge to earnings, alleges that Monus diverted \$10 million to WBL, and calls in FBI. Phar-Mor lays off nearly 700 workers

DATA: ENR

even if they hadn't seen those filings, stores might have wondered about Monus himself. In the stuffy drugstore, the flamboyant 44-year-old was out of place. He traveled by white limousine, often with an entourage. In his quiet hometown of Youngstown, Monus is nothing but quiet. About the time his marriage broke up, Monus began dating a local teenage girl. And he was building a new 18,000-square-foot home, complete with indoor basketball court.

Monus also seems to have avoided scrutiny based on the company he kept. Much of Phar-Mor's management and startup money came from the venerable Tamarkin Co., the family grocery chain and distribution firm. The family isn't talking. There's also the Shapira family's Giant Eagle Inc., a 50-store Pittsburgh supermarket chain with an estimated \$1.5 billion in sales. The company bought Tamarkin, where Monus was working as a vice-president, in 1981. Gi-

ant Eagle bankrolled Monus and Shapira's idea for a discount chain of drugstores in exchange for 50% of the action. That backing gave Monus enormous credibility, since Shapira is a member of Pittsburgh's establishment.

But running one of the nation's largest private drugstore chains wasn't enough for Monus. Friends say he saw Phar-Mor as a means to branch out into professional sports—his real passion. In 1987, he co-founded the World Basketball League. Basketball was just the beginning. By 1990, Monus, a low-handicap golfer, started sponsoring two Ladies Professional Golf Assn. tournaments at a cost of more than \$1 million a year. In 1990, he invested in the Rockies.

FAST LANE. Packaging the games was the next step. Monus planned to use his part-ownership in Sure Shot Teleproductions & Transmissions Inc., a satellite communications firm, to televise his sports events, including the Rockies. Ad dollars would be squeezed from Phar-Mor's huge suppliers, such as Coca-Cola Co. and Fuji Photo Film, former WBL owners explain. "He fancied himself the new Ted Turner," says Michael C. Smith, an original WBL partner and part-owner of the Calgary 88s.

But the WBL was Monus' downfall. Shapira contends at least \$10 million in Phar-Mor money was funneled to the money-losing WBL, which peaked at 10 teams. Eric Newsome, a former Youngstown Pride player and part-owner of the now-defunct Boca Raton team, says Monus treated players like members of the National Basketball Assn., putting them up in first-class hotels. Monus let star players live in his Youngstown home and frequently co-signed car loans for them, Newsome says.

As the league's general partner, Monus controlled at least 60% of each team. That meant he was on the hook for most of the league's expenses—and losses. Whenever the teams needed cash, the owners say they called Phar-Mor CFO Finn, or a contact at Phar-Mor's small-business division. Finn's attorney declined to comment.

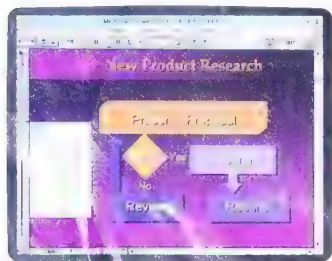
Blair Habuda, a CPA who headed that division from last November until he was laid off recently, confirmed that his group handled the personal investments of Monus and other Phar-Mor backers. He said the division had a check-writing machine with Monus' signature that was routinely used to move Phar-Mor funds to the WBL and elsewhere.

Still, the league was doomed from the start. Travel cost a fortune. U.S. fans stayed away in droves. In Youngstown, announced attendance of 1,200 people or so was regularly inflated by 100% or more, local sportswriters say. It was

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hard to take the WBL seriously: One team's mascot was a helium-filled pig.

After Monus failed to pay bills through most of the 1992 season, the league folded on Aug. 1. Local owners were left with debts of over \$200,000. "Monus left a trail of unpaid bills and broken promises," says Milton Kantor, a Dayton (Ohio) grocery distributor and partner in the local WBL franchise.

POSH PARTY. If the WBL wasn't enough to raise red flags among Monus' backers, his other business failings might have. In 1989, he invested in and became a director of British Columbia-based Battery One-Stop Inc. Last December, its U.S. operations filed for Chapter 11, after expansion plans failed.

Phar-Mor had its own ups and downs. Indeed, retail consultants and some distributors say Phar-Mor had a cash crunch beginning in the first quarter of 1991, at least partly because of massive new store openings. Phar-Mor wasn't paying many bills and was taking substantial unauthorized deductions from contract prices. Relations with suppliers grew so bad that Phar-Mor brought 200 together for a posh reception. Says one who attended: "We all joked that you didn't get an invitation unless Phar-Mor owed you more than \$1 million."

The crisis passed after the company raised badly needed capital (table, page 33). Between June, 1991, and last March, Phar-Mor raised some \$467 million, including the \$200 million Corporate Partners paid for a 17% stake. Phar-Mor also upped its revolving credit line by a third, to \$600 million.

With revelations of inflated earnings and inventories, it's doubtful that Phar-Mor ever posted anything but meager profits. Shapira confirms that Phar-Mor hasn't been in the black for the past three years, perhaps longer. Now, to keep afloat, Phar-Mor must keep supplies coming in. And amid the scandal, many suppliers are stopping shipments. Indeed, Phar-Mor has laid off nearly 700 employees, most of them from its huge distribution facility near Youngstown.

Besides layoffs, Shapira has halted the planned expansion of another 300 stores over the next five years and stopped building a new distribution center in Jacksonville, Fla. One investor estimates that up to 30 existing stores may be closed. Yet Shapira remains upbeat. "The company has suffered a tremendous blow, but I'm confident it will emerge strong," he says. A lot will depend on how deep Monus' alleged fraud runs—and whether Monus turns up.

By Michael Schroeder in Pittsburgh and Zachary Schiller in Youngstown, with Sandra Atchison in Denver, with bureau reports

DRUGS

GETTING DRUGS TO MARKET IN HALF THE TIME

A plan to speed approvals by having drugmakers pay some FDA costs

Since 1981, the Food & Drug Administration has been party to an annual budget charade. The President and the Office of Management & Budget propose that a chunk of taxpayer funding for the agency be replaced by fees levied on drugmakers and other regulated companies. Then the script calls for the industries and Congress to squelch the idea, blasting it as a tax on innovation.

But this year, the game may have a different ending. Key members of Congress and the pharmaceutical industry have agreed to support "user" fees if the money is used to expand the FDA's corps of drug reviewers and speed up the approval process for new products. A bill set to go before Congress in September would require drug companies to ante up \$75 million a year in fees. While the measure still faces hurdles, congressional sources say its chances of passing this year are running at least 50-50.

'MAJOR CRISIS.' Why the sudden switch? The main trigger is stark budgetary reality. A blue-ribbon panel convened in 1989 by Health & Human Services Secretary Louis W. Sullivan concluded that the FDA is simply unable to perform its basic tasks of regulating everything from sushi to AIDS drugs. Vice-President Dan Quayle's Competitiveness Council is loudly complaining that the drug approval process is too slow. Making matters worse, the number of new drugs (chart) and other products requiring FDA review is soaring. Without additional money, says David Beier, vice-president for government affairs at Genentech Inc., "we will all be facing a major crisis."

The extra money just isn't available, however. "I can't imagine the FDA getting more than a 3% or 4% increase a year," says a top OMB official. Indeed, for fiscal 1993, the agency's allotment is expected to climb to \$779 million, a boost of only 2.6%—less than inflation. That's why Representatives John D. Dingell (D-Mich.) and Henry A. Waxman (D-Calif.) turned their attention to a user-fee bill earlier this year.

The key was getting the drug industry to agree to the new levy—and to take some fancy stepping. The pharmaceutical companies "had some conditions they thought were impossible to meet," says a top Waxman aide. They insist that fees couldn't replace taxpayer funding, that the money be used only for drug reviews, and that the added sources buy them faster decisions.

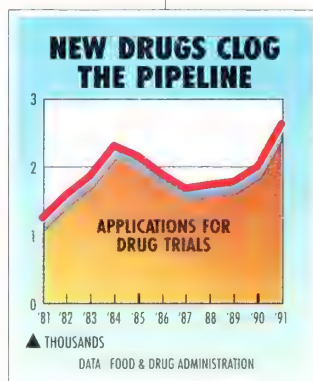
To everyone's surprise, the lawmakers, with FDA help, met the conditions.

The proposed bill says the fees would be levied only if Congress boosts the agency's budget by a certain amount, thus removing the temptation to skimp on regular taxpayer funds. The measure limits the use of the fees, which would range up to \$150,000 per drug application, to the approval process. In addition, if the bill passes, FDA chief David A. Kessler

promised to add 620 new drug reviewers to his payroll and to try to cut average approval time from more than 2 years to 12 months. That could add millions of dollars to companies' revenues from important new drugs. "Any move to accelerate the review process is a positive step," says Russ McLaughlan, president of U.S. Bioscience, a small drug company near Philadelphia. "And having the industry pay the costs can't do anything but help."

There are still some knotty details to be worked out. One is figuring out how much the FDA budget has to rise before the user-fee provision kicks in. Another is arriving at equitable fees, so that small companies don't have to shell out as much as big ones. But for very different reasons, those who were once bitter enemies on this issue have a stake in overcoming these obstacles. "The more conservative Administration officials are eager to do it to save money," says former FDA Counsel Peter Barton H. "while the most liberal congressmen want it to improve the FDA." What strange political bedfellows like the FDA user fees may be an idea whose time has finally come.

By John Carey in Washington





IT'S "TRASHMORE": FLORIDA RESIDENTS WANT NO NEW 150-FOOT-HIGH GARBAGE PILES

FLORIDA PLANS TO MOVE MOUNTAINS—OF TRASH

Policy to buy products made from its recyclables may be a bellwether

Recycling works a lot better in theory than in practice. Millions of Americans now dutifully separate of paper, plastic, glass, and other in their offices and homes. But to do with all that waste? Even though all 50 states have some sort of law designed to spur markets for recycled goods, supplies of used materials outstrip demand.

Now, eager to make recycling work, Florida is set to test a program aimed at opening the market for recycled trash. To do it, the state intends to become a supplier of waste and a buyer of products made from recyclables. The new program still has lots of details need hammering out, but it already has won the attention of such corporate giants as Rubbermaid, Waste Management, and Georgia-Pacific. If it works, Florida's program could become a model for programs in other states.

BIG SIDES. The Sunshine State has little choice but to meddle in recycling efforts. Even though Florida now recycles 1% of its waste, up from less than 1% in 1988, its booming population produces that just as much waste—about 10 million tons a year—still ends up in landfills. The state can't bury its solid

waste, since its groundwater levels are too high. Ocean dumping is a no-no. And creating more huge trash mountains, such as the 150-foot "Mount Trashmore" south of Miami, is unacceptable to the state's residents.

Enter the new program. Under it, Florida would contract with waste haulers, handlers, processors, and manufacturers, who would cart away the paper, plastics, motor oil, glass, and other recyclable materials generated by state agencies and facilities. But the key to the program is that the state would then buy back products made from those recyclable materials. "We'll give private industry both sides of the equation, and it can start the entrepreneurial thinking on how to make this profitable," says Lieutenant Governor Buddy MacKay.

But turning a profit in these ventures promises to be dicey. "There is no one who isn't a skeptic," says one waste handler. Critics maintain the program raises antitrust problems and is too complicated to work. "Everyone involved thinks it's a good idea, but economically it's not going to work," says another doubter.

Don't tell that to Robert McKnight, Governor Lawton Chiles's point man on the project. He maintains that the pro-

gram won't create more bureaucracy or require more funding than Florida's current recycling effort. As for antitrust concerns, companies must follow existing laws. Meanwhile, he says, companies have the opportunity to profit, since the state would create a huge market for recycled goods. "We hope we put in the fundamental economics to make it work," he says. "But this is an entrepreneurial scheme the private sector should drive."

PIONEERS. Some companies are already kicking the (used) tires. Georgia-Pacific Corp. in June launched a pilot project similar to the state's program. Under it, homes and schools in Winter Park, Fla., separate milk and juice cartons from other recyclable materials. Once that's done, Waste Management Inc. hauls, sorts, and bales the stuff, which then

is sold to a Ponderosa Fibres of America plant in Augusta, Ga. That company recovers the paper and sells it to Georgia-Pacific, which makes tissues out of it to sell in Florida.

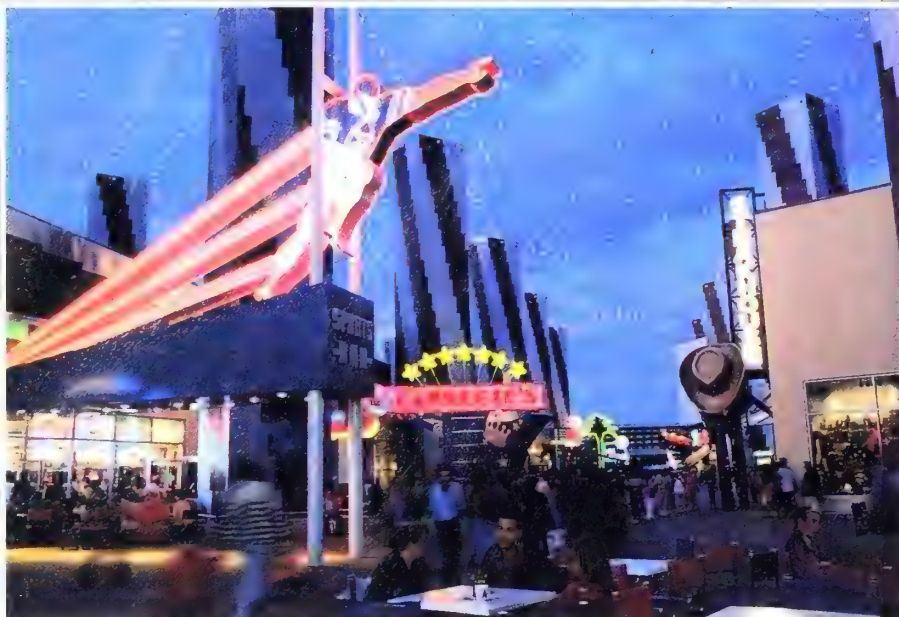
Now, Florida's state government is set to start its first official recycling venture. This August, it will issue details on an initiative to recycle motor oil, car batteries, and antifreeze and will ask for bids from companies. Depending on the level of interest by cities and counties, participants could end up purchasing 1.5 million gallons of recycled motor oil, 615,000 oil filters, 100,000 batteries, and 162,000 gallons of antifreeze a year.

Elgin (Ill.)-based Safety-Kleen Corp., the nation's largest re-refiner, will bid on the deal. Rubbermaid Commercial Products Inc. wants to get in on future plans to recycle plastics: It will use the stuff to make wastebaskets. "This is truly a pioneering effort," says Charles J. Lancelot, director of Rubbermaid's materials and process technology. "It has as good a chance of succeeding as any program I've seen."

Other states are watching closely. Jonathan Burgiel, director of materials recovery in the Orlando office of R. W. Beck & Associates, a leading recycling consultant, says he's getting dozens of calls from state and local governments that want more information on Florida's program. "I can see this working here and taking it to other states," he says. If so, Florida's brainstorm, like its trash, could be recycled.

By Gail DeGeorge in Miami, with Peter Hong in Washington

TOURISM



ATTENDANCE IS BELOW EXPECTATIONS, AND THOSE WHO DO SHOW UP AREN'T SPENDING

THE MOUSE ISN'T ROARING

Euro Disneyland was prepared for a rocky start—but nothing like this

Vast and elegant, the Newport Bay Club is the largest of six hotels in Euro Disneyland, and one of the biggest in Europe. But come October, this posh centerpiece of Walt Disney Co.'s four-month-old amusement park near Paris will shutter its 1,100 rooms until spring—even though the park itself will stay open. It's a "summer theme" hotel, park officials explain, not suitable for winter. Privately, however, Disney insiders admit they had planned to keep the Newport open all year. Why the change in plans? Advance bookings for the hotel are simply grim.

It's enough to wipe the smile off Mickey's mug. Ever since its splashy April opening, Disney's \$4 billion European venture has been overwhelmed with bad breaks. Attendance is far below expectations: The park is on track to draw 9.6 million visitors this year, analysts say, vs. the 11 million Disney had projected.

ORLANDO-BOUND. Those who do come are underspending on food and souvenirs. Disney figured each visitor would buy \$33 worth of the stuff every day, but analysts think spending is running about 12% less. Now, European tour operators, unable to meet their commitments to fill the park's hotel rooms, are demanding that Disney renegotiate their deals.

Disney admits that the park will likely lose money in its fiscal year ending Sept. 30. Analysts think red ink will flow further into the future. "We'll have to wait two or three years before we see a profit," predicts Nigel Reed, an analyst with Paribas Capital Markets in London. Stock in Euro Disney—49%-owned by Walt Disney and 51% by the public—has plunged like a roller coaster (chart).

It's not "cultural imperialism" that's doing Mickey in, but high prices. "It's really quite expensive," complains Karen Gee, marketing manager of Airtours PLC, a British travel agency. Instead of heading for Paris, Airtours' clients are flocking to Walt Disney World in Florida. Because of a cheap dollar and an Atlantic fare war, a London-Orlando package costs \$115 a day for plane, hotel, and park entry. Brits must pay \$200 a day for a similar Euro Disney package. "And Florida has sun and beaches," adds Gee.

Lodging is the big difference. Orlando's forest of cheap motels

doesn't exist at Euro Disneyland—where rooms start at \$110 and go to \$380 at the Newport. Aliette Ménard, who runs a government tourist office in the park promoting trips to nearby chateaus and cathedrals, says people instead may ask her how to find a cheap hotel. Parisians who don't need rooms also at the park *cher*. A Paris newspaper figures a family of four spends \$280 a day, including *les hamburgers* and *les milkshakes*. French visitors, expected to be 50% of the market, are almost invisible.

In true Mouseketeer fashion, park officials deny they have a problem. Nonetheless, they're taking steps to fix it. They've cut rates up to 25% at two hotels. Restaurants are offering cheaper meals. Disney is launching a Paris blitz, with posters proclaiming: "California is only 20 miles from Paris." Euro Disney officials say they're getting results. August crowds have been healthy. And hotel occupancy has been 100%.

August is not the worry, however—it's the rest of the year. "On a foggy February day, how appealing will the park be?" asks Airtours' Gee, who says her winter bookings are dismal.

To a degree, Euro Disney's U.S. parent is shielded from French troubles. Its investment is less than \$200 million, a fraction of the total. And whether or not there's a profit, Walt Disney gets 10% of ticket sales and 5% of merchandise sales.

BETTER DAYS. Still, the French park's rocky start is a blow to Disney profits. Insiders blame Europe's sluggish economies, plus competition from Spain's World's Fair and Olympics. But they concede their market forecasts were too optimistic and say they erred in building too much, too soon. Disney has delayed plans for an adjoining Disney MGM Studios Tour park, from 1995 to 1996.

Many observers expect Disney to see its French park humming eventually. Jean-Jacques Limage, an analyst with DLP James Capel in Paris, thinks investors have overreacted and says Euro

Disney stock is a buy. Even Parisians who patronize the park once they return from August vacations, he says. With time, more hotels will pop up, joining the Novotel 40 miles from the park. At \$29 a night, it's the Newport Bay. A sticker-shocked European is glad of it. By Stewart Toy in Paris, with Patrick Osterman at Euro Disneyland and Ronald Grover in Los Angeles



ED BY DEIDRE A. DEPKE

COUNTING LEMONS

Under most states' auto lemon laws, dealers or car makers must replace defective autos that aren't successfully repaired after three attempts or that idle in the shop for 30 days. Florida is the only state that tallies such transactions. Here's its 1991 Lemon Index, weighing car makers' lemons against state-market share:

	Lemon Index (1.0 = average)
ACURA	0.00
ALFA ROMEO	0.29
BMW	0.50
BUICK	0.70
CADILLAC	0.95
CHRYSLER	3.32
FORD	3.63
GENSLER	5.41
HONDA	7.34
INFINITI	9.32



WELLS FARGO: PLAYING THE GAME AGAIN

Warren Buffett is back. After taking a hiatus from investing to resurrect scandal-plagued Salomon Brothers, Buffett is buying stakes. On Aug. 12, Wells Fargo announced that Buffett's Berkshire Hathaway purchased an additional 500 shares of the San Francisco bank, boosting his stake to 10.75%. The deal follows Buffett's July purchase of 5% of General Dynamics. Buffett paid \$66 each for Wells shares—but he would have paid much more. The Federal Reserve approved his request to acquire Wells Fargo a year ago, when shares were trading as high as \$98. But Buffett, caught up in the Salo-

mon problems, delayed the deal. The waiting period saved the Omaha billionaire some \$20 million.

RETIREEES TAKE A NASTY BLOW

► Forget about retiring with all-expenses-paid health care from your employer. About 65% of U.S. companies have altered retiree health insurance plans during the past two years, or will do so by 1993, says a new survey by benefits consultant A. Foster Higgins & Co. Most of them are sharply reducing benefits by asking retirees to pay more of the costs. Some companies are eliminating the plans altogether.

Blame soaring medical expenses and an accounting rule, due to take effect next year, that requires companies to post long-term retiree medical benefits as liabilities on their balance sheets.

ZENITH BREATHES A LITTLE EASIER

► Zenith Electronics' financial picture may be brightening. The company says it has lined up an unnamed lender for a three-year, \$60 million working capital agreement by pledging its accounts receivable as collateral. The new credit line will replace one that was secured by all of Zenith's patents and trademarks

IS HAIR FROM THE BARBER'S FLOOR NEXT?

Tough times render rancid crimes. In fact, slick thieves have taken to stealing used grease from behind Detroit-area restaurants—that's right, the stuff in which french fries, mozzarella sticks, and the like are cooked. Ray Castine, president of Cedar Springs Rendering Co., a Michigan company hired by eateries to haul the goo away for recycling, says lard bandits cost his tiny outfit \$250,000 a year.

The crooks sell the hot oil for cash to recyclers, who refine it for use in cosmetics, paint, plastic, and animal feed. The crime wave hardly alarms local cops. "Detroit and Pontiac police have given us incredible looks," says Castine. "They say, 'unless they are doing it with guns, then we can't be bothered.'" Houston is sliding down the same slippery slope. One thief there, police say, made more than \$60,000 one year from his ill-gotten grease.



and 65% of its Mexican and Canadian operations.

To give itself some much-needed breathing room, the company also has filed a registration statement to sell 8 million shares. With its stock now trading around 7, the new shares could raise a welcome \$56 million—if they can find buyers. Zenith lost \$43.8 million in the first half, and had annual losses in five of the past six years.

FLUOR TAKES ON A GIANT CLEANUP

► Fluor, best known for its construction of oil refineries and power plants, announced

on Aug. 11 that it has snared the Energy Dept.'s largest single environmental cleanup award ever—worth as much as \$4 billion. Fluor, based in Irvine, Calif., will clean up and dismantle a shuttered and leaky nuclear reactor outside of Cincinnati.

The sprawling facility sits on 1,050 contaminated acres. Energy used the site to process uranium for nuclear warheads from 1953 through 1988. The cleanup job will employ at least 2,000 people and take at least five years.

WILL GM POWER A NEW PICKUP FROM TOYOTA?

► The irony is sublime. Toyota has asked rival General Motors to supply an optional V-8 engine for an upcoming model of its new pickup truck. Until now, big pickups have been an exclusive—and highly lucrative—domain of the Big Three. This fall, however, Toyota plans to drive in with its T-100, powered with a V-6 engine. Most pickups are sold with V-8s, but Toyota doesn't make one that is suitable. GM hasn't decided whether to supply the engine. The move would keep its factory humming—but would increase competition for its trucks.



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AL GORE'S RECORD REALLY SO GREEN?

Al Gore gets passionate when he talks about the environment. Defending the earth, he likes to say, transcends politics and must be "the central organizing principle in the post-cold-war world." Republicans, taking the Democratic Vice-Presidential nominee at his word, savage him as an "international environmental extremist" whose mission "runs the real risk of destroying the U.S. economy." But an examination of the record shows that the Tennessee senator is thoroughly pragmatic when it comes to shaping his positions to the wishes of his constituents. In his 15 years on Capitol Hill, Gore has become a leading spokesman on global warming, clean air, and ozone depletion. But when home-state issues have been at stake, the Tennessean has found it easy to be less than green.

CLEAR BACKER. In his early days in the Senate, Gore was sometimes the despair of environmentalists. A frequent ally of Senator Howard H. Baker (R-Tenn.) on local issues, he supported the Tellico Dam in 1978 despite objections that it would cause the extinction of a small fish called the snail darter. And he's a fervent supporter of the Tennessee Valley Authority. He's been a friend of TVA for a long time, as a high-ranking official of the government-owned utility.

The prospect of jobs for Tennessee also led Gore to support highly controversial nuclear facilities. He backed the \$3.2 billion Clinch River breeder reactor to the bitter end in 1983. The now-abandoned project drew the vehement opposition of both environmentalists and arms controllers, who feared that the plutonium it produced could have been diverted to weapons projects. Meanwhile, along with the rest of the Tennessee delegation, Gore wants to move the manufacture of nuclear weapons triggers from the Energy Dept.'s contaminated Rocky Flats complex in Colorado to Oak Ridge.

It's no surprise that some Tennessee environmentalists are upset with Gore. "He'd be better than Quayle, but we wish he would wear his green hat in the Armed Services Committee," says Ralph M. Hutchison, executive director of the Oak Ridge Environmental Peace Alliance. Replies an aide to the senator: "No one has done more than Gore to correct the past mistakes at Oak Ridge. Anybody who knows his record knows he wouldn't propose something without the absolute highest safety standards."

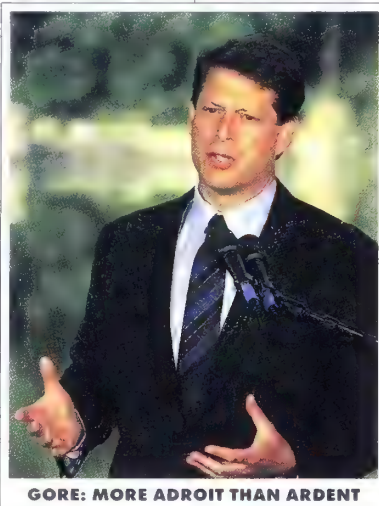
CANNY MOVES. Gore's willingness to compromise on jobs-vs.-the environment issues sometimes extends beyond Tennessee. "It's clear he doesn't vote the way we want him to every step of the way," says David Gardiner, lobbyist for the Sierra Club. "He's a practical guy." Gore pushed—unsuccessfully—for an amendment to the Superfund law that would have given business more favorable treatment in the allocation of toxic-waste cleanup costs.

In his much-cited book, *Earth in the Balance*, Gore argues that the time has come for "the elimination of those public expenditures... that encourage and subsidize environmentally destructive economic activity." But last year, he cast the deciding vote against restricting the ability of mining companies to obtain title to federal land at

almost no cost. The Senate killed a similar amendment on a voice vote in early August, though this time Gore played no part: He was off campaigning for Vice-President.

In 1989, Gore's voting record won him a 100% rating from the League of Conservation Voters. But by 1991, he'd dropped to 73%, lower than some Republicans. The record shows that Gore is neither the enviro-terrorist portrayed by the GOP nor the fierce tree-hugger he sometimes claims to be. He's a more familiar Washington species—an adroit politician.

By Peter Hong

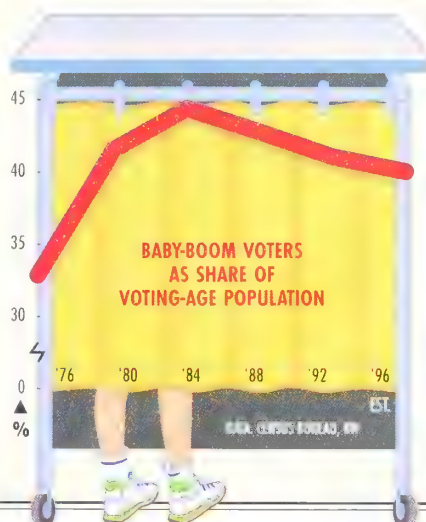


GORE: MORE ADROIT THAN ARDENT

CAPITAL WRAPUP

DEMOGRAPHICS

For the better part of two decades, the baby boom generation has been the elusive grail of American politics. In the hearts of this huge but diverse voting bloc, consultants told politicians, and victory is yours. But the age of the boomers may be slipping away without their electoral potential as a bloc ever having been realized. From a peak of 45.2% of the voting-age population in 1982, the boomers have slipped to 41% now. They'll drop below 40% by 1996. Still, boomers vote more as they age—which explains the double-boomer Democratic ticket's bid for the generation.



SCIENCE

The National Science Foundation has consistently fought politicians' efforts to redirect NSF's passion for pure research into more practical channels. But the scientists may be losing ground. The Senate Appropriations Committee has thrown NSF into a tizzy by declaring, "The new world order requires the Foundation to take a more activist role in transferring the results of basic research... into the marketplace." NSF officials are predicting bitter opposition from researchers as word of the directive spreads. "There will be screams from scientists," says one official.

GM FINALLY DISCOVERS ASIA

It's pursuing customers and investing in a network of assembly plants from China to Indonesia

At the Beijing Auto Show in July, Toyota, Volkswagen, and Audi all staged major promotions. But none was more aggressive than that of an auto maker not known for its clout in Asia: General Motors Corp. At GM's exhibit, a bevy of smiling women in stars-and-stripes outfits ran up to visiting Chinese cadres, handed them balloons, and slapped U.S. flag stickers and the GM logo on their lapels. The Chinese must have been impressed: Orders for Cadillacs rose sharply this summer.

All over Asia, GM is trying harder. The Detroit giant has shifted its strategy there 180 degrees. Instead of viewing Asia mainly as a cheap-labor source of cars, GM now recognizes the region as one of the world's fastest-growing consumer markets. The company is on the move from China to Indonesia (table). Its goal, says Ronald J. Gilchrist, executive vice-president of GM's two-year-old Asia-Pacific office in Hong Kong, is to "gain footholds in each market and build on them."

VAST APPETITE. It will be a tough slog. For decades, Japanese carmakers have dominated the Asian markets in their backyard, setting up a network of local assembly plants. That's what GM aims to do, too, with a truck plant in China and plans to invest in Taiwan and Southeast Asia. Even with the cost disadvantage of cars shipped from North America, GM has found some loopholes to exploit. Taiwan and China, especially, are eager to import



A GM SHOWROOM IN TAIWAN: OPEL AND SATURN SALES HAVE BENEFITED FROM A BAN ON JAPANESE IMPORT

more from the U.S. and less from Japan to deflect political heat. And the developing countries of Asia have a vast appetite for small cars such as those from Opel, GM's German subsidiary.

GM's commitment to Asia comes right from the top. John F. Smith Jr., GM's president since April, developed international savvy during two years heading GM Europe and four in charge of all GM

foreign operations. He has targeted Southeast Asia as a key market. Although car sales in the region have slowed from their 25% annual growth in 1986-90, analysts expect sales to rise up to 9% each year during this decade.

GM sees Taiwan as a critical beachhead for its sales of U.S.-built cars. Not only have rising incomes set off a boom in car sales, but the government bars

ports of fully assembled Japanese cars. Last year most of the 14,000 cars sold there were large prestige cars. But in July GM started selling Saturn in Taiwan through its dealerships. The cars are proving as hot there as they are in the U.S. In two months, the Taiwanese have snapped up 8 Saturns at \$22,800 each. More are on the way.

With that kind of acc-

GM'S ASIAN MOVES

- ▶ Owns 30% stake in a \$100 million plant in China that will produce up to 60,000 light trucks annually by 1998
- ▶ Boosts distribution and marketing of Opels in Hong Kong and Singapore
- ▶ Exports 14,000 U.S.-made cars to Taiwan annually and plans to assemble 20,000 Opels a year there
- ▶ Expects to set up auto assembly operations in Indonesia, Malaysia, and Thailand

DATA: BW

GM is building a manufacturing plant in Taiwan. Opel is investing \$19 million in a joint venture that will assemble up to 20,000 Astras a year.

Within months, GM hopes to reach plants on a similar plant in Indonesia, a country with only 3 million vehicles for 15 million people. To crack the more mature markets of Malaysia and Thailand, GM wants to assemble a few thousand vehicles there, too. And in high-growth markets such as Hong Kong and Singapore, Opel is boosting marketing, relying on its German engineering.

But GM still has a lot to prove. For one thing, it has a history of failed Asian ventures. The biggest was Daewoo Motor Co. After much fanfare in the early 1980s about forging a global partnership, the South Korean venture collapsed this year over numerous management disputes. After 10 years of assembling trucks and buses in the Philippines, GM sold the venture to Isuzu Motors Ltd. in 1989. And while its Australian subsidiary, GM- Holden's Automotiva Ltd., has 17% of that market, high fluctuation costs keep it from exporting aggressively into nearby Asia.

GLOBAL PICKUPS. While GM is a leading importer in Taiwan, its market share in the rest of Asia hardly registers. "I wouldn't say GM doesn't have a chance, it's going to be very tough," says Tokyo-based auto analyst Ryuichiro Inoue of Mitsubishi Research Institute. "They're definitely late."

But in China, GM's prospects seem far brighter. With economic growth surging at 10%, joint ventures by Chrysler, Volkswagen, and Peugeot can't meet demand. Most imported cars are Japanese. Chinese officials say they prefer dealing with Westerners in manufacturing joint ventures. GM's strategy is to mass cars and focus on trucks, for which domestic demand is strong and foreign competition negligible. GM has a stake in a \$100 million joint venture announced in May in Shenyang to produce 60,000 pickup trucks by 1998.

The company is getting a boost from its current "buy America" campaign, aimed at cooling U.S. anger over human rights record and \$12.7 billion trade surplus. On July 28, Chinese companies spent \$130 million to buy 7,000 cars from U.S. companies, including Chevrolet Blazers, vans, and Luos. China says it plans to place big orders for U.S.-made cars each year. It's a big deal for GM to make significant inroads into the region. With finances strained at home, that's asking a lot. Its red-and-stripes team in China may have to try harder for years to come.

*Peter Engardio in Hong Kong, with
as B. Treece in Detroit and Karen
y Miller in Tokyo*

DAEWOO, SAMSUNG, AND GOLDSTAR: MADE IN EUROPE?

Korea's Big Three are launching an all-out effort to become local players

The top guns of South Korea's consumer electronics industry have yet to score a major victory in Europe. The Big Three—Daewoo, Goldstar, and Samsung—all tried screwdriver plants to assemble TVs, VCRs, and microwave ovens as a way to beat market barriers. Even then, market share fizzled out at around 5%. "We met the local-content rules," says Kim Young-Ha, general manager of Goldstar Co. "But that did not make us as competitive as the Japanese or Europeans."

Now, the Koreans think they have the answer. They're launching an all-out effort to become local players, including direct investment and joint ventures. "For us to survive, we have to be a local company—in the true meaning of the word," says Kim Hun, Samsung Elec-

tronics Co.'s executive managing director. In Bonn, a 25-inch stereo color TV from Goldstar still sells for only \$600. The next cheapest model is from Philips at \$870.

The new approach to Europe is forcing Korean companies to shed their nationalistic approach to foreign sales. They've long insisted that when possible, products should be made in Korea and exported. No more. "Go European is the theme for us," says Bae Soon-Hoon, president of Daewoo Electronics Co. His company is building a \$150 million, integrated color TV plant in France. The TVs will be designed in France, and most of the components will be European-made.

JOINT FRIDGE. In a key move, Samsung last month said it would buy Werk für Fernsehelektronik, a former East German picture tube maker. Samsung is

spending \$120 million to upgrade the plant, which could churn out 1.2 million TV sets a year. The company is negotiating to buy an even larger German TV maker, RFT. For more efficiency, Samsung has moved its Portuguese and Spanish color TV plants to Billingham, England, and its VCR plant from England to Spain. The company will use the Portuguese plant to make parts for all its European plants. "The realignment will result in lower operational costs, consistent quality, and creation of additional jobs," says Samsung's Kim Hun.

Goldstar is focusing on alliances to widen its market share. Its Italian venture, Goldstar-Iberna Italy, is a good example: Goldstar, Italy's Iberna, and Germany's Gepi collaborated to produce a refrigerator that was designed by Goldstar's Ireland facility and manufactured in Italy with parts and components supplied by Gepi. And Goldstar's color TV plant in Italy uses picture tubes made by Finland's Nokia.

The Korean companies are expected to invest approximately \$700 million more in Europe within the next five years. A German economist concedes that the Koreans "are catching up fast." They hope to triple their European market share. But given the brutal competition, that lofty goal will be hard to reach.

By Larxi Nakarmi in Seoul, with Igor Reichlin in Bonn and bureau reports



THE BACK OF A BARCELONA BUS: SAMSUNG IS GOING NATIVE TO LOWER COSTS AND MATCH EUROPEAN QUALITY

tronics Co.'s executive managing director. He and other Korean producers think that's the way to lower costs and match European quality standards. It also avoids dumping charges. A lot is riding on the outcome. Despite the problems, Europe is second only to the U.S. as a buyer of Korean consumer electronics, soaking up 21% of its exports.

Battered by high labor costs, runaway interest rates, and low-cost competition from Southeast Asian countries, Korean makers have seen their exports to Europe go flat. "We need about a 5% share in each country to become a visible player, but that has become extremely difficult," says Goldstar's Kim. The Korean products lacked clear brand identity and, as one Korean government official puts it, "the image of Korea was of cheap,



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THE GERMAN MILITARY COMES OUT OF THE BARRACKS

Amidst horrific reports of Serbian war atrocities in Bosnia, German Chancellor Helmut Kohl ordered a destroyer and three navy aircraft to join the NATO forces patrol the Adriatic Sea. Although largely a symbolic contribution, it apparently breached Germany's constitution, which bans German troops from operating outside NATO countries. It's the first sign that the Continent's dominant economic power is beginning to break out of its military straitjacket and carve out a new role in European security. "We've developed a culture of [military] reticence, and we must take very small steps to overcome it," German Defense Minister Volker Rühe told *BUSINESS WEEK* in an interview.

The opposition Social Democrats have challenged Kohl's action in court. But he is counting on the judges ruling in his favor—which Rühe says could be an "opening" to further maneuvering abroad. Bundeswehr officials already are preparing units for future U.N. peacekeeping missions. And news that they are laying groundwork for a 50,000-man rapid reaction force has raised eyebrows in European military circles.

With the U.S. reducing its troop strength in Europe, the Germans are trying to fill some of the vacuum as well as play a role more in line with their economic clout. But that will be a delicate task—not the least because German assertiveness inevitably stirs up bad memories. However, even mild shifts in Germany's military posture could heighten tensions between the U.S. and France—and help push the U.S. out of Europe. The reason: They don't want the Germans to put more resources into building an independent European force. But Washington, buttressed by Europe's shocking inability to deal with the Yugoslavia crisis, argues for continued reliance on the U.S.-led NATO. Caught in the middle, the Germans try to please both

sides. Last May, they signed off on French plans to form a 35,000-troop Franco-German brigade. Behind closed doors they told troubled U.S. officials not to worry. The new "Eurocorps" would not be big enough to challenge NATO, and the dual-helmeted Germans would be NATO troops first.

Well aware that any serious European force is years off, the Germans badly want to keep NATO intact. But they are also very sensitive about protecting their ties with the French, a relationship they regard as the cornerstone of a stable Europe.

NATO is "the most important security structure in Europe," says Rühe. "But we need some add-ons in response to a very changed situation."

BALANCING ACT. Rühe and others think they have found a formula that will patch over the rift between the U.S. and the French. They hope to get the French to agree to put Eurocorps forces under NATO operational control during any NATO conflict. U.S. officials now say they won't oppose the development of a separate European force under those conditions.

But maintaining the balancing act will not be so easy. The Germans have failed to broker deals between the French and the Americans before—notably on trade. American, British, and Dutch officials all fear that the French will eventually win

the Germans over to their idea of a grand, independent European force—dooming NATO as it now stands.

The Eurocorps may be fledgling now, but if it expands, "we may find ourselves unable to sustain the argument for U.S. forces in Europe," says a State Dept. official. That means that sooner or later the Germans are likely to face a tough choice between their role as a European power and a transatlantic ally.

By Gail E. Schares in Bonn, Bill Javetski in Paris, and Amy Borrus in Washington



A FRANCO-GERMAN BRIGADE: THE START OF AN INDEPENDENT 'EUROCORPS'

BAL WRAPUP

LY

Efforts by new Prime Minister Giuliano Amato to overhaul Italy's sick economy could face tougher going. After taking power in June, Amato pushed through decrees reducing political influence in state-owned firms such as Istituto per la Ricostruzione Industriale (IRI) and energy conglomerate Ente Nazionale Idrocarburi. But Parliament is not likely to be so pliant when it reconvenes next month. Amato's biggest headache will come from the deteriorating Italian economy itself. According to new projections, some 100,000 workers in industry and construction are likely to

lose their jobs in the autumn months, pushing Italian unemployment over 11%. That could make it difficult for the government to quickly privatize large swaths of state industry, leading to even more job losses. State-owned IRI, for example, with \$55 billion in debt and \$280 million in red ink last year, employs 400,000 people. Amato's plans to increase consumption taxes as part of an effort to raise \$27 billion to close this year's budget have already been greeted by calls for a tax revolt.

CHINA

How Beijing responds to the August rampage at the new stock exchange in the coastal district of She-

nzen will be a key signal of how fast China will pursue further economic reforms. The riots, which erupted after 300,000 Chinese streamed to Shenzhen in an attempt to buy 500,000 shares of newly issued stock, come at a time when top party elders are locked in a fierce internal battle over the economy. Communist hard-liners are expected to seize on the turmoil as proof that Deng Xiaoping's push for rapid economic growth is leading to instability. Reformers argue Beijing must greatly expand the availability of stock to meet demand so that market forces, not speculation, will determine prices. If Beijing halts new issues, other reforms could be scaled back as well.

IS THIS ANY WAY TO RUN THE FAMILY BUSINESS?

The Dabahs stitched Gitano into a huge hit. Now, they have to patch the mess it has since become

On a warm evening in the summer of 1989, the normal bustle along Manhattan's upper Fifth Avenue turned into a buzz. The Dabah family was throwing a party in an apartment overlooking Central Park, and the guest of honor was none other than Yitzhak Shamir, then Prime Minister of Israel. As guests sipped cocktails and discussed U.S. support for Israel, secret service agents and New York City police stood guard along a roped-off sidewalk lined with limousines.

For the Dabahs, a proud family of Syrian Jews, the opportunity to fete Shamir was a rich honor. It also marked a coming of age. Not even a decade had passed since Haim Dabah, the oldest of four children, had begun to transform his father's struggling wholesale firm into a prosperous designer jeansmaker called Gitano Group Inc. Gitano's success had earned the Dabahs status and influence—enough to host a party for Israel's most powerful leader.

SIBLING RIVALRY. But three years later, "everybody thinks we're bums," laments Haim Dabah, Gitano's 41-year-old president. Earlier this year, Dabah shocked Wall Street by reporting a 1991 loss of \$62.5 million on sales of \$781 million. On July 31, he dropped a second bomb: a \$78 million charge against second-quarter earnings. Pressured by its banks, Gitano has hired new management and launched a sweeping plan to close stores, shrink inventories, and jettison manufacturing plants. Meantime, a retailer of children's apparel the Dabahs bought in 1989—partly with money borrowed from Gitano—is having a liquidity crisis of its own.

The up-and-down saga of the Dabah clan shows just how quickly a loosely run family business can come unraveled under the pressure of spectacular growth. Gitano was plagued by a combustible mix of lax financial controls and a poorly executed expansion strategy—problems that should be fixed in the restructuring. But the company also has suffered from clashing wills within the family, something much less easily purged. Says a longtime executive who has left: "There's only one word for the downfall of Gitano: ego." As the company remakes itself, overcoming that prob-

lem may prove to be its greatest challenge.

In the 1980s, few apparel companies had brighter prospects than Gitano. Led by Haim Dabah and his younger brother Isaac, the company created a hot new brand of designer jeans with a chic, youthful image. But while designers such as Ralph Lauren and Calvin Klein sold their pricey fashions through big-name department stores, the Dabahs found a wide-open niche at blue-collar discounters such as Wal-Mart, Kmart, and Venture. As teenagers rushed to buy the low-priced goods, Gitano's sales shot from \$30 million in

straight to work. He declined to join his father's wholesaling business, which sold everything from socks to umbrellas. Instead, he struck out on his own, hiring on at a New Jersey discounter called Big D, where he quickly rose from a stock boy to store manager.

By 1974, however, his father's business was struggling, and Dabah quit to go out. His father, a dapper man who spoke in a near-whisper, designated him "the man to the outside world," Haim says. The son proved masterful at using high-fashion to hone Gitano's young, sexy image.



1980 to a peak of \$807 million in 1990.

Gitano's success was a badge of honor for Haim and his siblings, who were born in Jerusalem. Their grandfather, also named Haim, had fled there in the 1940s to escape persecution. While most of the Dabah clan emigrated directly from Syria to New York, it wasn't until the mid-1960s, after the elder Haim died, that his son Morris began moving his family to America.

FAMILY TIES. Haim Dabah was 16 years old when he arrived in New York. The family had enough money to send him to Talmudical Academy of Baltimore, a boarding school. But after graduating, he went

also forged strong ties to discounters, especially fast-growing Wal-Mart.

By September, 1988, Gitano's star was burning brightly enough to command \$20.50 a share in a \$51.2 million initial public offering. The Dabahs retained a 10% stake. The money was used to pay off Gitano's long-term debt, leaving the company clear for more expansion. "Everything that touched turned good," Dabah recalls. "I figured things would stay that way."

The trouble was, the company had overgrown Haim's ability to control it. There was no business plan, no budgeting, and no system to monitor the purchase and man-

ment of inventory. Admits Dabah: "The thing I don't know how to do is make our systems, financial controls, and that stuff work." When sales were rising, that didn't matter. But as the economy slowed in 1990 and Gitano became dependent on low-margin business like Wal-Mart, the high costs of a loose organization began to show. Without the ability to gauge what was happening, Haim was lost in the clouds. "Imagine flying a plane without instruments," he says. "It's basically what happened."

Insiders say the problem was exacerbated by Haim and Isaac's dividing Gitano into what resembled sovereign fiefdoms.

threw out improperly dyed jeans instead of reworking them. Moreover, Gitano suffered what management now calls a "black hole" concerning piecework. With no systems in place to track apparel at various stages of the production process, thousands of dollars worth of merchandise would disappear. "I was fairly appalled," says Cliff Thompson, a Levi Strauss & Co. veteran brought in to clean up manufacturing. "It was a real mess."

Although manufacturing was losing millions—it contributed \$15 million to Gitano's overall \$62.5 million loss last year—Isaac held fast and wouldn't let go. "Nothing was ever put to a vote," grumbles one former top executive. "Everybody wanted to get out of manufacturing, except Isaac." It wasn't until late 1990 that he was convinced

from the wholesale business—the strategy's original purpose. Old inventory built up and eventually had to be marked down to sell. The stores never made money.

Along the way, the Dabahs privately bought a 130-store retail chain called The Children's Place, partly with money borrowed from Gitano. The chain is a big customer of the public company but has never made money and is currently facing a liquidity crunch. "The family has lost a lot of money on Children's Place," Haim says, adding only that the \$27 million still owed Gitano is collateralized by family assets.

Now, with Gitano stock languishing around 4, from a 1989 peak of 40, the Dabahs are conceding defeat. To straighten out the finances and build management controls, they've hired Peter C. Kells, a former Coca-Cola and Revlon exec. And as they renegotiate credit lines with banks,

they've decided to get rid of two plants, shutter most of the stores, and refocus on the core: selling jeans to Wal-Mart and others.

Kells, however, notes that even the core needs help. Gitano routinely orders too much inventory from its sources overseas, resulting in money-losing markdowns. The \$78 million second-quarter writeoff reserves for such losses—even allowing for goods that won't arrive until fall. Kells is installing a budget system to rein in buyers. "I'm gonna be the major disciplinarian," he says.

But can Gitano really return to its heady past? Even if the Dabahs step aside and give Kells & Co. the power to pierce a corporate culture built on inefficiency, Gitano has other concerns. These days, the company sells more than one-quarter of its total volume to Wal-Mart. That guarantees some sales growth as the giant retailer continues to blanket the nation with new stores. But it also means razor-thin margins: Wal-Mart is infamous for squeezing its vendors for every penny.

WOES AHEAD. Evidence is also growing that Gitano's fashion sense—once considered fresh and progressive—is getting stale. Just ask Maxine Clark, the executive vice-president for apparel at Venture. Clark says her national chain has cut business with Gitano significantly over the past couple of seasons. The reason: "When we looked at the merchandise, we couldn't find anything to buy. The product line wasn't as fashionable as it should have been."

Kells points out that Gitano's orders for next season are up—proof, he says, that the brand is as strong as ever. And Haim Dabah is quick to show cynics a plaque on his desk that reads: "Business is a series of brilliant opportunities disguised as impossible situations." Maybe. But it's one thing to shrink a bloated jeansmaker to its right size, and another to keep family members from getting too big for their britches.

By Ron Stodghill II in New York



Although Haim had direct control of marketing and

ostensibly in charge of the entire company, it was understood that Isaac handled production decisions. With sales growing, each brother wanted to expand his division: Isaac wanted to bolster manufacturing while Haim was intent on expanding Gitano's retail business. The upshot was a series of disastrous decisions.

LACK HOLE. Isaac, for instance, led Gitano into buying manufacturing plants in Mississippi, Guatemala, and Jamaica. But the company had no idea how to run them. Last year, the Jamaican plant had a waste rate hovering at 20%—an industry average of 4%. Workers simply

that the factories had to be shut down.

Isaac was unavailable for comment. Haim would only say: "We feel strongly that the company should give executives a certain amount of autonomy. We don't try to micromanage."

Haim Dabah, too, had his unchecked follies. Retailing was the worst, insiders say. To get rid of excess inventory, he reasoned, Gitano should open its own stores. So he expanded headlong from 10 stores in 1987 to 100 last year. With a full staff of buyers and designers, the chain took on a life of its own, and soon there was no room on the shelves to accommodate inventories

CAFE AU LAIT, A CROISSANT—AND TRIX

General Mills does deals with Nestlé and PepsiCo to tackle Europe

Toucan Sam, Tony le Tigre, and Snap, Crackle, et Pop are European celebrities. Roaming abroad for years, they have helped Kellogg cereals build an even stronger position overseas than at home. Yet their archrivals—the Lucky Charms leprechaun and the Trix rabbit—have never even bothered to get visas. The reason: As other American foodmakers elbowed their way onto Europe's grocery shelves in the 1980s, General Mills Inc. and its spokestoons single-mindedly stuck to North American shores.

Well, they've finally packed their bags for a round-the-world tour. While General Mills still sees plenty of room to build domestic sales and profits, it recognizes that it can't afford to neglect the rest of the globe. With only a small snack-food business overseas, it needed to get up to speed fast. So it's taking an unorthodox route for the packaged-food industry: joint ventures. The suburban Minneapolis company has launched an ambitious assault on the \$3.5 billion European cereal market, with help from Nestlé. And on Aug. 6, General Mills and PepsiCo Inc. won European Commission approval to merge their European snack-food businesses, catapulting the combined company into the largest player in the \$17 billion market.

TO HAVE AND TO HOLD? Such partnerships can be risky. They often end up dissolving, with one partner splitting off and using what it has learned to become an even stronger competitor. But General Mills figures the potential rewards far outweigh the risks—especially given its late start. In cereals, Kellogg Co. has a 70-year head start abroad: In some countries, it controls as much as 80% of the ready-to-eat cereal business. Thanks to the 1980s' mania for food acquisitions, takeover candidates are few and pricey.

On the other hand, building factories and distribution channels from scratch "would have taken years and years," explains Vice-Chairman Arthur R. Schulze. "We felt a sense of urgency."

In some ways, coming late to the game could turn out to be a blessing for General Mills. Nestlé's and PepsiCo's well-known brands, plus their distribu-

will now be No. 2 in European snack food. International markets do offer a given opportunity for growth. Europeans on average eat just three pounds of cereal a year per capita, compared with 12 pounds in the U.S. Starting from a small base, sales volume in some markets, such as Spain and Portugal, have been growing at 20% to 50% a year, 5% in the U.S.

INSTANT BREAKFAST. Cereal Partners Worldwide (CPW), the Nestlé-General Mills hookup, has quickly gained a foothold in Europe. In 1990, the venture snapped up the Rank Hovis McDougal PLC cereal unit for \$165 million, giving it an instant 15% market share in Britain and a launching pad for the Continent. General Mills has ditched most of its own laggard cereal brands and is rolling out such staples of its own as Cheerios and Golden Grahams under the Nestlé label. General Mills has also directed a makeover of Nestlé's Chocapic cereal, including reformulating the taste, redesigning the packaging, and introducing new products featuring a cartoon puppy.

CPW's sales have climbed to \$250 million, in several countries surpassing Quaker Oats Co., long Europe's No. 2 cereal marketer. CPW seems on its way to achieving its goal of \$1 billion in sales by a 20% share by 2000. In one month, it tackles its first European market: Mexico. But catching up with Kellogg in Europe will be a serious challenge. Says General Mills' Dupaty, a buyer of a big French supermarket chain, "Nestlé is a giant 10 years away from threatening to overtake Kellogg as France's No. 1 cereal brand."

Profits are proving particularly elusive. Because of hefty start-up costs, the venture lost \$70 million in its first fiscal 1992, ended May 31, according to Prudential Securities Inc. analyst John McMullen. And it may not move into the black until the second half of the decade. "The breakeven point will depend on the speed at which we expand," says Rudy Gasser, who oversees CPW for Nestlé. Because General Mills owns half of the venture, it splits the losses with Nestlé, so they'll hit earnings this year by more than 10¢ a share, or 3%, according to Smith Barney, Harris Upham & Co.



IN PARIS: CHEERIOS WITH THE NESTLE LABEL

SNACK VENTURES EUROPE
New venture merges PepsiCo's and General Mills's European snack-food businesses. Will be the largest snack-food marketer in Europe, with \$641 million in sales. Won EC approval on Aug. 6

CEREAL PARTNERS WORLDWIDE
50-50 joint venture with Nestlé to sell General Mills cereals everywhere but in North America. 1991 sales of roughly \$250 million
DATA: COMPANY REPORTS

tion and marketing muscle in Europe, will instantly give General Mills strength that many of its go-it-alone competitors lack. PepsiCo, for instance, brings its vaunted "store-door" distribution system, in which Pepsi delivers its products directly to each store, not through a warehouse. Even rivals admire the alliances. The snack venture is "an excellent move for PepsiCo and General Mills, because two very complementary businesses have been put together," says John Warren, finance director at London's United Biscuits PLC, which

is particularly elusive. Because of hefty start-up costs, the venture lost \$70 million in its first fiscal 1992, ended May 31, according to Prudential Securities Inc. analyst John McMullen. And it may not move into the black until the second half of the decade. "The breakeven point will depend on the speed at which we expand," says Rudy Gasser, who oversees CPW for Nestlé. Because General Mills owns half of the venture, it splits the losses with Nestlé, so they'll hit earnings this year by more than 10¢ a share, or 3%, according to Smith Barney, Harris Upham & Co.

aging Director Ronald B. Morrow. Jack Ventures Europe, as the Pepsi-General Mills deal is known, will split off with revenues of around \$641 million. General Mills owns 40% of the venture, to PepsiCo's 60%. The partners say it will be profitable immediately, although they decline to give numbers. PepsiCo just 4% of the fragmented market, but sees plenty of chances to grow by bringing distinct product and technological capabilities to the partnership.

For example, General Mills is good at making products that are extruded into distinct shapes, such as its Bugles snacks, while PepsiCo dominates the snack business. "The driving force is going to be our ability to generate new products," says Michael J. Dolan, the PepsiCo executive who has just become chief executive of the venture. Geographically, there's little overlap: PepsiCo is strong in Southern Europe, while General Mills is a leader in the Benelux countries.

Back at home, General Mills continues to deliver dazzling results, even as most other foodmakers struggle through the recession. In fiscal 1992, profits from continuing operations rose 16%, to \$505.6 million, on a sales increase of 9%, to \$7.8 billion. Packaged foods such as Betty Crocker cake mixes and Hamburger Helper dinners, as well as Wheaties, and other Big G cereals, are General Mills' biggest businesses. Its Red Lobster and Olive Garden restaurants added in about 23% of operating profits, one-third of sales.

OPERATE NEED? To export its success to global markets, General Mills may have had no choice but to seek partners. Observers say cracks almost inevitably appear in such alliances—especially if the partner ends up contributing more to the other. For example, some outsiders already question General Mills' decision in allowing Nestlé to plaster its name on all General Mills cereals outside North America. In a business where brand names are all-important, they say, decision effectively hands those cereals over to Nestlé. "As long as we need each other desperately, it will be fine," says Kevin Rollins, a vice-president at the management consulting firm PricewaterhouseCoopers & Co. "But if the economics change, that's when joint ventures start to fall apart."

In both cases, General Mills and its partners vow that they'll stay together for the long haul. Schulze of General Mills insists the company did not enter the deals lightly. And so far, its joint venture experience with Nestlé has persuaded General Mills that there's nothing like a traveling companion to make foreign terrain seem a bit less alien.

Lois Therrien in St. Louis Park, Minn., with Charlie Hoots in Paris

STRATEGIES

SCHOLASTIC GETS READY TO HIT THE BOOKS

Flush with cash, the publisher pushes into the tough textbook field

Richard Robinson, chairman and chief executive of Scholastic Inc., was looking worried. It wasn't his company's stock price, which stumbled badly in the spring, or the educational publisher's year-end numbers, due out within days. Robinson was fretting about an article on education reform he was supposed to write for one of his company's publications. He had missed the deadline—again. "Oh, my editor's going to come in the door any minute," he said. "And I haven't even written my first word yet."

Juggling roles as writer and CEO is no easy trick, but Robinson, 55, has been pulling it off for 17 years. The son of Scholastic founder Maurice R. Robinson, he has helped the 72-year-old company build a major presence in educational publishing. Scholastic offerings include 34 children's magazines, best-selling juvenile fiction titles such as the hugely successful *Babysitters Club* series, book clubs and fairs, educational software, and television and home video productions. Today, Scholastic figures that 80% of U.S. schools are using its materials. For the year ended May 31, the company's net income excluding one-time charges was \$19.1 million, up 33%, on revenues of \$489 million, up 16%.

SECOND TRY. In February, Scholastic, which Robinson took private in a 1987 leveraged buyout, went public again in a \$90 million stock offering. Now, with the company cash-flush and almost debt-free, Robinson is aiming higher. His boldest move is a foray into the competi-

tive \$2 billion textbook market, where Scholastic has had little presence. The company is selling kits with a series of colorful new books for kindergarten through the eighth grade, along with audio and video cassettes and teachers' guides. It's investing some \$20 million a year in the business, hoping that it will



ROBINSON: A BOLD MOVE

A GROWING LIBRARY

1992 REVENUES: \$489.3 Million
1992 OPERATING PROFITS: \$19.1 Million

BOOK PUBLISHING

63%
OF REVENUES

Titles include *Clifford the Big Red Dog* and *The Babysitters' Club*. Division also is home of six kids' book clubs

INTERNATIONAL

21%
OF REVENUES

Magazines such as *Child Education* and *Junior Education*, and book series such as *Rosie & Jim*, especially popular in Britain

MAGAZINE PUBLISHING

13%
OF REVENUES

Thirty-four publications, including *Scholastic News*, *Junior Scholastic*, *Pre-K Today*

VIDEO AND SOFTWARE

3%
OF REVENUES

Includes Interactive Nova environmental program, and *Operation Frog*, an on-screen dissection program

DATA: COMPANY REPORTS

be worth \$100 million in annual revenues by mid-decade.

There are big obstacles in Scholastic's path, though. Its chief competitors in textbooks are bigger and better established. They include Macmillan/McGraw-Hill (50%-owned by BUSINESS WEEK's publisher), Simon & Schuster, and Har-

court Brace Jovanovich. And Scholastic has struggled with this market before: In the late 1970s, it lost \$1 million on its first try at textbook publishing.

The company had barely recovered from that debacle when, in 1984, it reported its first loss ever—\$13.8 million on sales of \$157.5 million. Robinson says the company had become complacent and allowed competitors to eat into its core kids' book business, while it fumbled an effort to computerize all its operations at once. "Almost everything seemed to go wrong," recalls Robinson. He brought in a new management team and revamped the entire book operation, from customer service to finances.

Robinson insists the latest foray into textbooks will be different. Because they include software, videos, and other high-tech teaching aids, Scholastic's new multimedia kits are designed to be more flexible for teachers and more attractive to students. For example, a science kit includes a unit titled *Garbage*. It has a chapter on recycling, a video segment showing what happens to garbage—and samples of types of trash. "It's not the traditional kind of textbook," says Barbara Ann Hawkins, a teacher at East Elementary School in Dillon, S.C.

Scholastic has a fast-growing market. Births are running at 4.1 million a year, vs. 3.2 million in the late 1970s. "The company is riding an excellent demographic wave," says Kenneth T. Berents, an analyst at Alex. Brown & Sons Inc., which took Scholastic public the second time.

MOVIE MISSTEP. It's all a far cry from 1920, when Maurice Robinson launched *The Scholastic* newsletter to bring contemporary literature and current affairs into classrooms. The magazine has been joined by 34 other titles, such as *Junior Scholastic*, *Update*, *Scholastic News*, and *Scholastic Search*, read by some 23 million students. The elder Robinson also introduced a series of book clubs for kids, now its most profitable unit.

To keep the profits coming, Scholastic is building a new distribution center in Jefferson City, Mo., which should help it move orders along. To fight the competition in book clubs, the company is stepping up its marketing: It gives away stuffed animals with subscriptions and offers free books to teachers. And it has made an aggressive move into cable and syndicated TV with shows based on *The Baby-sitters Club*, its fiction series featuring seven adolescent girls, and other properties. But it has pulled back on plans for theatrical movies, taking a \$6.7 million write-down on several scripts that have been shelved. With all the other projects Robinson is juggling these days—not to mention that article he has to write—it's probably just as well.

By Santa Wadkar Bhargava in New York

Marketing

SNACK FOODS

FRITO-LAY IS MUNCHING ON THE COMPETITION

Under Roger Enrico, both profits and market share are up

From a conference room in a Dallas high rise, executives at a Frito-Lay Inc. division point outside to a rival's cheeky assault: a billboard touting Eagle Snacks Inc.'s new tortilla chip. Score one for Eagle? Forget it. Frito's sales team struck back by winning most of the snack franchise at the independently operated deli in Eagle's new Dallas headquarters.

Now that's what Roger A. Enrico likes to call "taking back the streets." Since arriving at Frito in January, 1991, Enrico has put the PepsiCo Inc. unit back in the fast lane by grabbing market share, shrinking a bloated bureaucracy, and boosting profit margins. "The organization has accomplished far more in this period than I ever thought possible," says Enrico, who won his reputation as a scrappy manager and savvy marketer while president and CEO of PepsiCo Worldwide Beverages.

The numbers alone give him reason to boast: Frito's operating profits jumped 15% in the first half of 1992, helped partly by lower potato costs. The company should earn \$800 million on \$4 billion in sales for the full year, according to analyst Lawrence Adelman of Dean Witter Reynolds Inc. That's a 13% gain over 1991 profits, excluding a \$91 million restructuring charge (chart). "I don't think they've topped out by any means," says Adelman.

BIGGER CHEESE. Enrico has roused the industry Goliath out of a torpid five years by slashing prices, boosting quality, and putting the zing back into Frito's advertising. Frito's share of the \$4.2 billion supermarket salty snack business jumped more than a point, to 42.3%, for the 52 weeks ending in mid-June, according to Nielsen Marketing Research. Archrival Borden Inc. lost nearly a point of its share, falling to 8% for the same period. The turnaround adds another star to Enrico's career: In June, the 20-year PepsiCo veteran was promoted to oversee both Frito and PepsiCo Foods International (page 50). And he has emerged as the clear favorite to succeed 56-year-old PepsiCo Chairman Wayne Calloway.

Not that Frito was in danger of crum-

bling without Enrico. The company's powerhouse brands such as Doritos, Lay's, and Ruffles, a 10,500-member sales force, efficient factories, and sophisticated information systems. But the last decade, Frito grew fat on all success. It developed a bulging payroll at its Plano (Tex.) headquarters. It boosted prices faster than inflation. And it allowed lapses in quality, such as many broken chips in each bag. As a result, rivals began to nibble away. More alarming were the gains made by Frito's archrival, Heuser-Busch Cos.' Eagle Snacks, which churned out premium products at prices up to 20% lower than Frito's. The fierce competition drove down the company's profit margins from 21.4% in 1990 to 18.9% last year.

Enter Enrico. Using skills honed in the cola wars, he first eliminated 1,800



SCORING HITS IN MARYLAND: BORROWING

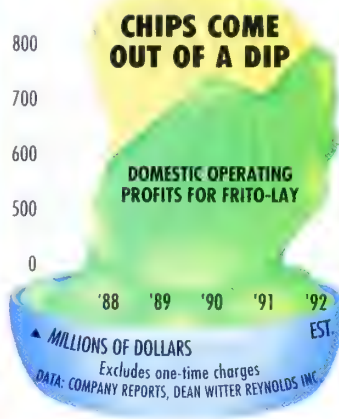
0%, of Frito's management and administrative jobs. By spreading decision making throughout the company, Enrico tested quality and made Frito more agile. At a snack plant in Irving, Tex., for example, nearly half the managers are on the floor, and plant-floor operators rather than supervisors check products every day to enforce stiff new quality standards. Enrico also closed or sold 4 of Frito's 40 plants and dropped nearly 100 package sizes and flavors from its bloated lineup. The cutbacks have saved an estimated \$100 million annually—which Enrico is using for new products, lower prices, and better marketing. The mouth-watering goal: 10% to 12% annual gains of 10% to 12% annually, real volume growth of 10% a year, and gains in market share, all while keeping a lid on costs.

GOING LOCAL. That's a tall order, particularly in an industry racked by price cuts. As he did at Pepsi, Enrico is betting heavily on slick marketing to make the difference. First he reformulated the flagship Doritos brand. And recently, he rolled out splashy new TV ads to which he reformulated Lay's and Ruffles to chips. In May, the company announced it was changing the packaging,

cutting the salt content, and switching from soybean to cottonseed oil to improve the flavor of both chips. It signed up basketball stars Larry Bird and Kareem Abdul-Jabbar to peddle the new Lay's in the product's first network TV



ENRICO'S COST-CUTTING HAS SAVED \$100 MILLION A YEAR



commercials in 10 years. Then Enrico shelved the 27-year-old "Ruffles Have Ridges" tagline, replacing it with a "Get Your Own Bag" theme.

Catchy advertising is only one of Frito's weapons. The company's marketing machine is humming at the grass roots, too. That's critical, because unlike other packaged goods, such as toothpaste or canned soup, the snack-food market still has strong local players who command regional loyalties. In the Baltimore-

Washington area, for example, Utz potato chips claims about one-third of the market. Now, Frito is challenging Utz in blind taste tests. The result so far this summer: Lay's has doubled its still-slim share in the area. In the past, says Stephen Liguori, vice-president for brand marketing, "we were too big and too stodgy to worry about going after these local opportunities."

Enrico even put on his salesman's shoes to champion the grass-roots effort. Last May, he and his wife handed out samples of Frito's new "Nacho Cheesier Doritos" at several Dallas supermarkets. They were among 13,000 staffers who promoted the new brand by giving away 5 million bags across the country that day. Enrico says the campaign also lifted

morale by making employees feel like a team: "It's about as close to a religious experience as you ever get in business," he says.

But it is Frito's rivals who may soon be saying their prayers. The company has recently discounted some of its key brands "to levels we've never seen," says Peter J. Cline, group vice-president for Borden's North American snack business. Borden blames the ferocious price competition for a 33% plunge in second-quarter operating profit from its snacks and international consumer products unit. No. 3 Eagle is faring better. Its share in supermarkets is up 0.8 points, to 5.2% for the year, according to Nielsen. But despite its strong growth, analysts figure Eagle could still lose \$15 million to \$30 million in 1992.

RIGHT STUFF. Borden and Eagle are both far from cashing in their chips. To cut costs, Borden plans to start a national brand to supplement its 20 or so regional labels. The company is also launching a new chip called Graingers to compete with SunChips, Frito's successful new multi-grain snack, which had a remarkable \$115 million in sales in its first year. Eagle, meanwhile, says it is rolling out new tortilla chips and pretzels.

If Enrico is as good a talent scout as he is a marketer, Frito's rivals will get little relief from Steven S. Reinemund, his hand-picked successor. Reinemund earned his stripes as CEO of PepsiCo's Pizza Hut unit by building a home-delivery business that may surpass industry leader Domino's Pizza Inc. this year.

Now, as he takes over a revitalized Frito, Reinemund has inherited the ingredients for success. After all, he'll be learning from a man who has convinced lots of Americans that the perfect meal is a bag of Doritos and a Pepsi.

By Wendy Zellner in Plano, Tex.



CHIPS FROM THE COLA WARS, LAY'S IS CONDUCTING BLIND TASTE TESTS—AND WINNING

AIR RAID

BRITISH AIR'S BOLD GLOBAL PUSH

When Colin Marshall was 17, he ran away from home to see the world. He signed up as a cadet with the Orient Steam Navigation Co. and for seven years shipped out on voyages between Britain and Australia. Since then, Marshall's career has taken him from boats to cars to planes. He has run four companies in seven countries. Each time, he has made the globe seem smaller and traveling simpler.

Now, the prodigal son has

set the world spinning a bit faster on its axis. Sir Colin Marshall, chief executive and soon-to-be chairman of British Airways PLC, last month nailed down an agreement with USAir Group Inc. to form a huge transatlantic alliance. It's a bold bid for global supremacy that challenges the Big Three American carriers in their own skies. After a decade of deregulation in the U.S., American, Delta, and United airlines have been toughened by fierce competition—and had expected to be the globe-girding pioneers.



But Marshall may steal a march on them. What's more, he may try to pull Trans World Airlines Inc. into his orbit.

The BA-USAir combo, with passengers on both sides of the Atlantic feeding into the system, would create the world's largest carrier as measured by revenues: \$16 billion altogether. Airline executives have long dreamed of moving seamlessly across boundaries to create global networks, but BA will do so, assuming Washington O.K.'s the deal. Add BA's American market share to its potential in a newly deregulated Europe, and it will be the closest thing yet to a global

dynamo. Buying into USAir is "a major step in fulfilling our ambitions to be the airline of the future," says Marshall.

It's a pretty picture, if it all works. But Marshall faces tremendous hurdles. The USAir bid is stirring up a political maelstrom in a charged election year. Big American carriers, fearful of BA's onslaught, are whipping up anti-BA sentiment and furiously lobbying regulators with objections. Donald J. Carty, executive vice-president for finance and planning at American Airlines Inc., warns darkly that "we could become feeder systems of big global airlines." Washington

concerns aside, Marshall could ignite vicious fare wars, as



MARSHALL: A STICKLER FOR SERVICE

others fight to undercut BA. What's more, BA's prize has its share of problems. USAir has lost money for three years, and synergy between BA and the Arlington (Va.) carrier won't come easily.

BA's incursion into the U.S. marks the first global showdown in a fast-deregulating world. By pushing for a deal that gives it such an entrée to the U.S., BA is provoking U.S. airlines to demand the same access in Europe—just as the European Community is preparing to dissolve its internal borders. In fact, the carriers insist that greater rights abroad be the quid pro quo for approving the BA purchase. Meanwhile, the Europeans, most of them inefficient and unprofitable, are vulnerable: Weaker carriers could well break ranks and tie up with the mighty Americans, causing a rush of transatlantic alliances that could bust up markets on both continents. Says Tim W. Walden, industry affairs manager at London-based British Midlands Airways Ltd., a BA competitor: "It could turn into the biggest free-for-all we've ever seen."

TROJAN HORSE. It's not the first time Marshall, 58, has tried such a stunt. He helped turn BA from "bloody awful" into bloody awesome, transforming a haven for civil servants into an airline with a world reputation for service. Using his American training from Avis Inc., which he made No. 1 in Europe, he got BA em-



SCHOFIELD: HE SAYS MARSHALL WON'T TRY TO RUN USAIR

ployees to "try harder," too. Now, Marshall relishes the sight of U.S. competitors squirming. In an interview at BA's glass-and-steel building at Heathrow Airport, he snorts: "I'm not at all surprised that the three majors are squealing like pigs because they see a fourth domestic competitor looming large."

Cocky as that sounds, there's a lot of truth to it. The new carrier, with 669 aircraft and 94,000 employees, will carry more passengers to more destinations than any other airline: 339 stops in 71 countries. In effect, USAir will be BA's

Trojan horse. Although BA, by U.S. law, can't fly between American cities, USAir and BA can commingle operations to give passengers the impression that they are flying on the same airline. In papers filed with the Transportation Dept., BA says that in five years the two will "integrate all the core aspects of the airline business... to the point where they operate under one management structure." First to be harmonized are the network of flights and connections, ticket prices, catering, advertising, and purchase of aircraft. Within a year the plan calls for the establishment of three brands: one each for North American, European, and intercontinental flights, so consumers know they are part of a single network. **'EAT OR BE EATEN.'** On a trip, say, from Indianapolis to London, USAir will handle the domestic leg, and

the international portion. But the crew will wear the same uniform and serve the same food, and cabin interiors will look the same. "Passengers won't know if their pilot is British or American," says Roger Maynard, BA's director of corporate strategy.

BA is banking on the day when it can fly passengers from any city in the U.S. to any city in Europe on a USAir or BA plane. The stateless carrier might even fly under a new logo: British-American Airways is one rumored possibility.

Marshall may also deploy USAir on

BRITISH AIR'S EXPANDING REACH

1938 BOAC (British Overseas Airways Corp.) formed from merger of archrivals Imperial Airways and British Airways. State-owned airline runs the first regular passenger service across the Atlantic

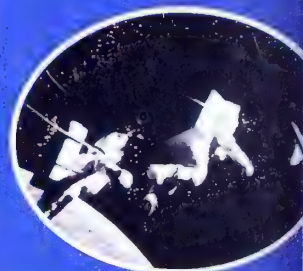


1976 Concorde flies first supersonic commercial passenger flights



1983 Colin Marshall becomes chief executive, making customer service the No. 1 goal. "World's Favourite Airline" ad campaign introduced

1981 British industrialist Sir John King (later Lord King) takes over and starts to prepare the lackluster airline for privatization. He dumps routes, shrinks staff, modernizes fleet



mission: to make a run on assets of TWA, now in bankruptcy. With USAir doing the bidding, he could snap up TWA's St. Louis hub, its facilities at John F. Kennedy International Airport, and its lucrative Paris routes. A source close to BA admits "TWA is much in the picture."

Marshall's big gamble is also riding turbulence in Europe. The EC is poised to deregulate its market starting on Jan. 1, 1993. For the first time, EC carriers will have the right to fly between any European cities, without having to end up back home. That means fiercer competition—and a painful consolidation, as happened in the U.S. Cosseted state-owned carriers such as Air France and Lufthansa will find their British counterparts strengthened by its new U.S. gateway base, which accounts for more than a third of all international flights. "It's eat or be eaten," says Lord White, chairman of Hanson PLC's U.S. operations and a BA board member.

WARD HO. So Marshall is moving no time in the New Europe. In 1991, he snapped up a German regional carrier, renamed it Deutsche BA, and is positioning it into a low-cost airline that will become BA's vehicle to build Europe's first hub-and-spoke system. Next on the agenda are more alliances. "In any case," Marshall deadpans, "one or two other airlines will be joining us." BA has a one-third stake in a Moscow-based



HONG KONG LANDING: THE ALLIANCE WILL SERVE 339 CITIES

joint venture, Air Russia, which will begin flying in 1994. And Marshall has his eye on booming Asia. He has a bid in for the Australian government-owned Qantas Airways Ltd., which could pit him against such Asian powerhouses as Singapore Airlines Ltd. and Cathay Pacific Airways Ltd.

While Marshall plays the global strategist, he is also keeping his eye on the

fine print of the USAir deal. In the complex arrangement, BA will spend \$750 million to buy a 44% stake, in the form of convertible preferred shares, in USAir. BA will have only 21% of the voting shares, however, in accordance with the U.S. limit on foreign ownership. But after five years, BA may wind up having to pay as much as \$1.35 billion to prevent its 44% stake from being diluted. And that's more than USAir's total market capitalization, now \$1.2 billion. "When you buy your way into the largest market in the world, you expect to pay a premium," says UBS Phillips & Drew analyst Richard Hannah.

VETO POWER. Still, the deal may be more favorable to BA than it appears. BA Chief Financial Officer Derek Stevens figures the company can borrow most of the \$750 million in the U.S. at 6%, while USAir is paying out 7% on the preferred shares for five years. BA has also cannily protected its shareholders from USAir's \$2 billion debt, giving the two companies a five-year engagement period before deciding whether to tie the knot. Meanwhile, BA will reap benefits from day one. James C. Halstead, an analyst at London's Hoare Govett Ltd., figures that if USAir funnels just three additional business-class passengers a day into BA's international routes, BA adds \$1 million a year to its bottom line.

No matter what BA's stake, Marshall

7 Following ad blitz, BA's initial offering for \$1 billion is massively subscribed



1991 BA expands access to U.S. market after Britain agrees to let American and United succeed Pan Am and TWA in serving Heathrow Airport



1989 In bid to gain access to U.S., BA teams with labor-management group at United Airlines in \$6.75 billion bid for airline. BA later pulls out

1990 BA and Aeroflot form Air Russia, slated to fly from Moscow to Europe, America, and Far East beginning in mid-1990s



1992 BA agrees to buy 44% stake in USAir to create world's largest airline alliance. Washington approval pending

Bursting bubbles.



The computer that n

The bubble in the middle doesn't really exist. It's just an image made from reflections of the sky, of the ground, of the other bubbles.

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is likely to be the one calling the shots. USAir's Chairman Seth E. Schofield, who has worked at what is now USAir since he was hired as a baggage handler at 17, is a capable manager who has made tough cost cuts. But industry executives say Marshall's clout and money will prevail. Says Schofield: "I don't think Colin Marshall has any intention of trying to run USAir."

Indeed, the British chieftain's game plan is already taking shape. BA wants to name four of the 16 board members and to appoint two others who will sit on both companies' boards. And BA insists that any major financial or strategic decision must be approved by 80% of the board, which would give BA a virtual veto. "The British are asking for things beyond the pale," says an industry executive. Some experts expect the Transportation Dept. to balk at this backdoor form of control. But Marshall insists he won't back down on the 80% vote. "One doesn't make that size of investment without having a say in what goes on," he says.

Marshall's power grab isn't going over well with the airline lobby, but Washington seems inclined to welcome the invasion. The Bush Administration has sent out signals that it favors increased foreign ownership, to save jobs at USAir, TWA, and other carriers facing extinction. The White House is ready to seek legislation raising the limit on foreign control to 49%, up from the 25% allowed today. But the chairmen of the Big Three U.S. carriers insist that Washington should use the BA deal as a wedge into Europe. In an angry letter to the Transportation Dept., Chairman Ronald W. Allen of Delta Air Lines Inc. fumes that "if the transaction is consummated, USAir will essentially become the North American division of British Airways."

BAD CONNECTION. BA and USAir may have to finesse the issue of control a bit, but meanwhile, Marshall is moving ahead with plans to integrate the two carriers. His first big assignment will be to wrestle down expenses. "If they want to operate in the U.S. market, one of BA's biggest challenges in the '90s will be to get those costs down," says Liam Strong, who ran BA's marketing and operations division from 1988 to 1991 and is currently chief executive of Sears PLC,

a London consumer-goods company. BA now operates in a relatively protected world, the result of Britain's cozy air treaty with the U.S. That has helped make transatlantic routes provide 50% to 75% of BA's total profits. But if Washington can open the British market further for U.S. carriers, the flood of new capacity could threaten those profits.

So Marshall is already looking for ways to lower outlays. He plans to combine purchasing, maintenance, and operations to reduce overhead. Analysts predict layoffs of about 4,500 workers, too, matching the number of jobs Marshall eliminated in 1991. Unions may scream,

But image overhaul is Marshall's stock in trade. He brought to BA attention to customer service rarely seen in Britain—and rarely surpassed to this day. Marshall says it was his days at BA that made him appreciate the importance of creature comforts. As deputy purser helping passengers on long ocean jets, he copes with boredom and cramped quarters. "I learned the importance of making travelers feel more comfortable," he says.

'COLD FISH.' Later, at Avis' European division, Marshall transformed it from a also-ran to first in its market by virtually inventing the European business-travel market. His success earned him the top job at Avis' New York headquarters, where he stayed for six years. Marshall left in 1981 for a year stint at Sears PLC.

In 1983, he was recruited to help remake BA. Years earlier, Prime Minister Margaret Thatcher had pointed industrialist J. King as chairman of the line. At the time, BA was stodgy, loss-ridden state enterprise. King's mission was to clean it up and prepare it for privatization. By the time Marshall arrived, King had already done much to turn it around. He cut the work force by 22,000, chopped unprofitable routes, and got rid of aging aircraft. He also combined BA's marketing and operations departments—an extraordinary move that allowed marketers to do such key decisions as craft purchases and flight schedules. The changes turned the carrier to profitability by 1983.

But it was Marshall who whipped BA into world-class shape. Industry insiders describe him as a shirt—some say "cold fish"—but Marshall wins credit for managing the difficult makeover. One of his first moves was forcing every employee to attend a two-day seminar on "putting people first." He sent managers of all levels from their sheltered headquarters to spend time in airport terminals, on ramps, and in the catering kitchen to learn how other people did their jobs. He paid attention to sagging morale by buying new uniforms, redecorating cabs and responding to flight attendant complaints about broken equipment and schedules that left them fatigued.

Marshall saw that air travel was coming a commodity and figured

HOW THE TWO AIRLINES ADD UP

	1991	BRITISH AIRWAYS	USAir
REVENUES		\$9 billion*	\$6.5 billion
PROFIT/LOSS		\$496 million*	-\$305.3 million
PASSENGERS CARRIED		22.7 million	55.6 million
TRAFFIC		39.1 billion revenue passenger miles	34.1 billion revenue passenger miles
FLEET		230 planes, average age 10.1 years	446 planes, average age 9 years
REACH		150 destinations in 70 countries	40 states in U.S., handful of international destinations
STRENGTH		High marks for service and marketing. Broad international reach	Powerful domestic network, concentrated in eastern U.S.
WEAKNESS		Until USAir deal goes through, lacks assured feeder traffic from huge, North American market	Few international routes; mediocre reputation for service

*Fiscal year ended Mar. 31, 1992; profit is pre-tax figure

DATA: COMPANY REPORTS, BW

but a prolonged recession in Britain has sapped labor's will to strike.

BA must also find ways to meld USAir routes with its own. Many USAir flights land at New York's LaGuardia Airport, whereas BA services come into JFK, forcing passengers to transfer across Queens by taxi. For better connections, BA may have to build an efficient bus or train shuttle to ferry people back and forth. It may also seek more flights through Newark International Airport, where both airlines have gates.

Perhaps most important, Marshall will have to make service as important at USAir as he has at BA. USAir specializes in short-haul routes, often with little competition, and consumer advocates give USAir poor marks on service.

to promote the three classes of service better. Even people traveling in the economy class, for example, are treated into their own "World Travel Club" and given perks such as complimentary wine with dinner. Business passengers belong to "Club World." The come-on includes lounges complete with secretarial services.

HURRAH? When the Concorde failed to attract enough passengers using a luxury appeal, Marshall launched an ad campaign that played up the supersonic jet's "Arriving in New York before breakfast." It became a hit with the marketing set that traveled across the Atlantic throughout the 1980s, and it re-

stored the Concorde to profitability.

Insiders say Marshall deserves the lion's share of credit for the USAir alliance, too. In London, the deal is widely viewed as the *pièce de résistance* of Lord King, the last hurrah for the outgoing BA chairman. Insiders, however, say it was Marshall who pushed hard for an American partner, while Lord King and others dragged their feet. One former aide says BA senior management was also divided: The opposing faction wanted to concentrate on preparing for EC liberalization. Then later, when the U.S. shakeout was over, they figured BA could move in to "pick the apples off the ground," the aide says.

But Marshall's pro-U.S. faction won the day. And soon, the onetime sailor is likely to be running the biggest travel armada the world has ever known. He has the industry scrambling toward a new era of transnational alliances and mergers. The question is whether he can stay one step ahead in the global race he started while at the same time tending to the myriad details of merging two behemoths into a smooth-running machine. Taking the whole world on your shoulders is a big job.

By Paula Dwyer in London, with Andrea Rothman in New York, Seth Payne in Washington, Stewart Toy in Paris, and bureau reports

KLM-NORTHWEST: THREE YEARS AND BARELY ALOFT

As British Airways lays plans for a world airline empire where the sun never sets, take a look at KLM, a European rival with similar dreams of empire. Alas, its alliance with Northwest Airlines Inc. is one on which the sun can't quite manage to shine. Three years ago, KLM Royal Dutch Airlines paid \$400 million for a stake in the U.S. airline. Like BA and USAir Inc., the partners talked grandly of a global entente to mesh routes, cut costs, and rival the American giants. That hasn't happened. Indeed, KLM has just swallowed its partnership losses.

There's plenty of blame to cast around. U.S. regulators, for instance, sought to block togetherness, nixing a financial review committee they said gave KLM too much control. And the deal may have been ahead of its time: In 1989, the U.S. was still far from the new accords that will soon make it easier for American and European carriers to enter each others' markets.

TAG TEAM. But the main problem seems to lie with the partners. Outsiders remain baffled as to why they have done so little to bolster one another through joint marketing, training, or purchasing. Northwest went out in 1992, for example, to change its image for lousy service. Top-flight service is KLM's forte. But after budgeting \$450 million for a three-year improvement program, Northwest has asked help from KLM to a casuexchange of ideas.

The two have also dragged their feet on linking flights, which would help them feed transatlantic passengers to one

another instead of to competitors. Only in 1991 did KLM start flying to Northwest's Minneapolis hub. KLM added a linkup at Detroit earlier this year—although it still doesn't serve Northwest's third hub, at Boston, which some analysts say would be an ideal KLM gateway.

Northwest claims its alliance with KLM had to start slowly. The U.S. carrier was such a ragtag operation when Co-Chairmen Al Checchi and Gary Wilson bought it in a 1989 leveraged buyout that, says Checchi, "we had to change the management" before meshing with leaner, classier KLM. Indeed, the Dutch carrier is one of Europe's

few profitable airlines, which in fiscal 1991 earned \$76 million on revenues of \$4.8 billion.

But now that BA and USAir are getting together, there's plenty of impetus for Northwest and KLM to get to work. Washington is about to offer a helping hand. It has chosen the Netherlands as the first beneficiary of its "open skies" policy, unveiled on Aug. 10. That would offer unlimited access to U.S. markets to countries that freely admit American carriers. A Dutch deal is possible by next month. And access to the U.S. is what KLM says it has been waiting for. Without that, "our ability to exploit synergies is severely limited," says an insider.

Northwest insists its Dutch connection will start blossoming in coming months. Checchi talks of sharing ticket offices and ground crews and "melding identities." A common name is possible eventually, the partners say.

But for now, BA says it's keeping KLM's U.S. experience in mind. One lesson: To avoid consolidating USAir's losses, BA will hold only USAir preferred stock for at least five years. KLM had to swallow an estimated \$60 million of Northwest's losses last year.

KLM badly needs the U.S. feed that Northwest can provide. Struggling Northwest needs help as well. Watching their rivals link up may be just the thing to put a little more oomph into their long-distance relationship.

By Stewart Toy in Paris and Andrea Rothman in New York, with Paula Dwyer in London and bureau reports

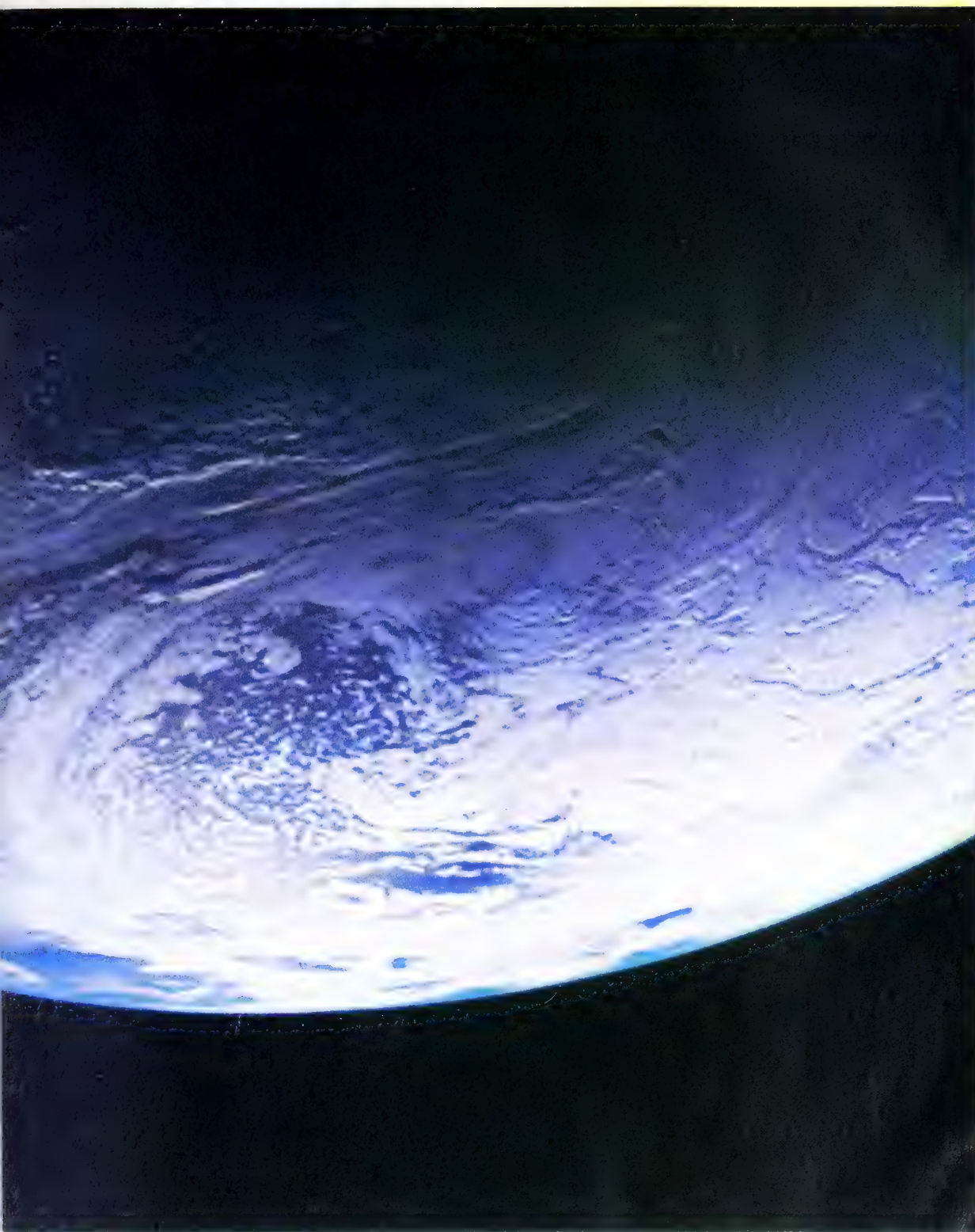


SO FAR, KLM'S TOP-FLIGHT SERVICE HASN'T TRAVELED



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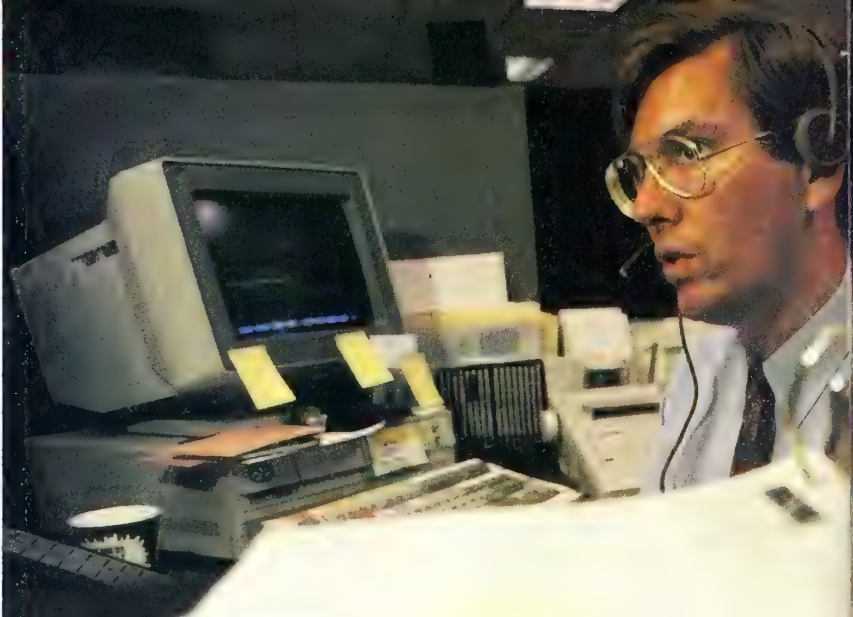
For months, rumors have been swirling that American Express Co. was about to put its Shearson Lehman Brothers Inc. subsidiary on the block. The move would fit with AmEx' overall strategy to beef up its balance sheet and get back to its basic card business. On Aug. 6, the speculation took on greater weight: AmEx disclosed it was trying to sell Boston Co., Shearson's private-banking and asset-management division.

The Street believes that the sale of Boston Co. would be a precursor to shedding Shearson. "I see selling Boston Co. as just another step toward the certain divestiture or spin-off of the whole Shearson Lehman shebang," says E. Wilson Davis, an analyst at Gerard Klauer Mattison & Co. "It would help AmEx' stock price and their financial situation."

AmEx insists that Shearson is a keeper. Both AmEx and Shearson officials say that a spin-off or sale is not being discussed. Says Howard L. Clark Jr., the CEO of Shearson Lehman Holdings Inc.: "We're a big factor in the overall earnings power of the company, which is a very different scenario than the late 1980s."

Shearson has indeed turned the profit corner and is adding to AmEx' bottom line. But, as one rating-agency analyst says: "It doesn't make sense for AmEx to be in Shearson's business. There are no synergies between the card and the brokerage business."

DOUBLE BOOST. Selling Boston Co. would make it a lot easier for AmEx to divest itself of Shearson through a spin-off or sale. Right now, Shearson is undercapitalized. True, the firm has doubled its ratio of tangible equity, from



BROKERAGES

IS SHEARSON ON THE BLOCK, TOO

AmEx says no, but the Boston Co. news fuels rumors

just 0.8% of assets in January, 1990, to 1.6% in the second quarter of 1992. But that's woefully below the 4.2% of a well-capitalized firm such as Merrill Lynch & Co. And Shearson's \$1.3 billion in equity falls \$700 million short of what is required for the firm to earn an A bond rating. Brokerages need at least that, both to maintain customer confidence and to borrow at favorable rates.

So if AmEx sells Boston Co. for \$1 billion, as expected on the Street, Shearson's balance sheet would get a double-barreled boost. After subtracting debt, Shearson's equity would jump by \$200 million, according to Sanford Bernstein & Co.'s Guy Moszkowski. At the same time, Shearson's \$81 billion in assets would shrink by Boston Co.'s \$1 billion. The effect would be to increase

A POKER-FACED AMEX PLAYS A NEW CARD GAME

It seems an unlikely offer, coming from charge-card titan American Express Co.: Call a toll-free number and get a free list of low interest-rate or no-fee Visas and MasterCards. A fit of corporate altruism, perhaps? Not precisely. In the ever-escalating card wars, it's just the latest effort by American Express' card division to combat the encroachment of bankcard rivals Visa USA Inc. and MasterCard International Inc.

AmEx' approach may be a bit oblique. Roger H. Ballou, president of AmEx' Travel Services Group USA, says he is convinced that high credit-card interest

rates are harmful to the economy. "Clearly, if we can help find ways to spur the economy, it will help our business," he says. But he acknowledges that focusing on high rates could help AmEx' charge card. AmEx hopes that if bankcard issuers are pressured into lowering interest rates, they'll compensate by either charging a higher fee to merchants that accept the card or charging consumers higher fees. Either way, AmEx benefits.

Indeed, AmEx' new campaign comes at a time when its card business is under pressure. The number of AmEx cards in force worldwide is down, the card is losing market share to

bankcards, and card profits have been falling. And AmEx' higher merchant rates have riled some merchants and generated negative publicity.

Moreover, competition in the card business is at an all-time high. Many industry executives expect Electric Co. to launch its own version of MasterCard this year. A similar move will come

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**BEEFING UP THE BOOKS:
SHEARSON MUST STILL WIN
A BETTER BOND RATING**

CLEANING UP THE BALANCE SHEET

COMPUTERVISION

A \$600 million equity and debt offering is scheduled for the week of Aug. 10. It would wipe out Prime Computer bridge loan from Shearson's balance sheet

BOSTON CO.

On Aug. 6, Shearson announced it may sell this unit. If it fetches \$1.3 billion, as expected, Shearson's tangible equity would increase significantly

BALCOR

In July, AmEx set aside reserves of \$300 million for the former Shearson real estate unit now on AmEx' books

DATA: SHEARSON LEHMAN BROTHERS INC., BW

years ago. To shore up its crumbling balance sheet, AmEx tried to sell 20 million shares of Shearson's stock at about \$13 a share. But the public turned thumbs down. AmEx ended up buying Shearson's outstanding stock and owning the whole company. In January, 1990, AmEx CEO James D. Robinson III installed Clark as CEO and, in short order, pumped \$1 billion into the brokerage, cut 2,300 employees, and slashed costs by \$400 million.

But Shearson needed a lot more help. In the second quarter of 1991, Shearson took a \$144 million write-off for its 28% stake in First Capital Holdings Corp., a failed California insurer. And AmEx also transferred \$1.5 billion in assets of Shearson's Balcor Co. real estate unit onto AmEx' own books. Then last month, AmEx had to take a \$300 million reserve for losses at Balcor (table).

BIDDERS. On Aug. 13, Shearson is expected to remove another nagging liability from its balance sheet: the \$500 million bridge loan it made two years ago for the ill-fated leveraged buyout of Prime Computer Inc. Shearson is scheduled to sell \$300 million in stock in Computervision Corp., the only remaining unit of Prime Computer, as well as \$300 million in high-yield debt. If the offering succeeds, Shearson will have converted the \$500 million bridge loan to cash and Computervision stock.

"The offering will allow Shearson to take a large, illiquid asset off our books," says Clark.

Shearson is now negotiating with three finalists, Chase Manhattan, PNC Financial, and Mellon Bank, for the purchase of Boston Co. AmEx says it won't take less than a premium price for what it considers a classy asset. Boston Co. generates a steady stream of fees from its trust and mutual-fund business, which makes up most of its estimated 1992 earnings of some \$130 million to \$150 million. Moreover, Boston Co. owns a rock-solid bank, Boston Safe Deposit & Trust Co. The bank's capital-to-asset ratio is almost twice what the Federal Deposit Insurance Corp. requires.

AmEx shareholders would welcome a Shearson sale. After trading as high as 37 in 1989, AmEx' stock is now at 22. "If the Shearson sale happened next week, AmEx' stock would rocket," says Gerard's Davis. "We would have a much simpler, comprehensible company—just TRS and IDS," referring to Travel Related Services, the AmEx card division, and IDS Financial Services Inc., its financial planning unit.

Floating a public issue of Shearson stock would not be easy. The Street hasn't forgotten the failed 1990 offering, the IPO market is not as robust as it was earlier this year, and Shearson's operating results continue to lag the industry. Still, the stock market remains strong and brokerages are racking up record profits. With Shearson's balance sheet in far better shape, AmEx may finally be able to cut its brokerage business loose.

By Leah Nathans Spiro in New York, with Geoffrey Smith and Gary McWilliams in Boston

GE appliances. General Motors also expected to come out with a

launched the latest salvo in the on May 12 with a report from ry, Boston Company Economic nc. The report concluded that a tage-point drop in credit-card ng the past two years would ed consumer wallets by \$7 bil- l personal savings by \$2.9 bil- creased the sales of goods and y \$4.1 billion.

MS. At about the same time, an sponsoring a series of fo- ducate consumers on how to card costs. A number of con- ups were invited to the fo- it's the presence of Washing- Bankcard Holders of America surprised industry-watchers. advertising a toll-free number

to take orders for BHA's list of low-rate credit cards, which it buys at a bulk rate from the group and has BHA send free to callers. BHA, the nonprofit watchdog of the bankcard industry, has participated in the five forums held thus far. AmEx underwrites the group's travel expenses. BHA says that's standard policy for its speakers' bureau. And while it doesn't want to be seen as connected to industry players, BHA says the forums represent a great opportunity to "tell it like it is about credit-card costs."

Visa and MasterCard see the campaign less as a public service than a chance for AmEx to dump on its major competitors. H. Robert Heller, chief executive officer of Visa USA, says AmEx should be the last company to criticize anyone about pricing, citing its own steep annual fee. AmEx' annual fee on its standard card is \$55, compared with the \$17.62 average

for bankcards. Of course, AmEx doesn't charge any interest on its charge card, and its Optima credit card offers a low rate of 12% to its best customers. But AmEx' merchant fees average 3% to 5% vs. 2% to 3% for bankcards.

Bankcard issuers can't deny that credit-card interest rates are still high. Despite some well-publicized cuts, such as Citibank's rate reduction in June, the average bankcard rate remains steep, at 18.45%, and has dropped just half a point in the past two years, while the prime rate fell four percentage points.

There's no doubt that AmEx has latched onto a hot topic. Already, 13,000 consumers have called the toll-free number for the list of low-rate cards. As long as card rates remain high, people will be hungry for information that can save them money—regardless of the source.

By Suzanne Woolley in New York

Commentary/by Gary Weiss

THE FEDS SHOULDN'T COMPOUND SOLLY'S FOLLY

The Salomon Brothers Inc. Treasury bond scandal has been an educational experience for everyone concerned. In the year since Solly contritely admitted to overbidding for Treasury notes, the Street has been shown that a little creative groveling can go a long way.

Even the bureaucrats have been taught a lesson: The Treasury Dept., Federal Reserve, and Securities & Exchange Commission have learned that the hands-off approach does not work. Regulators have beefed up their scrutiny of the bond auctions, improved auction procedures—and warned that they will act fast to stamp out bond-trading abuses.

Alas, the newfound regulatory activism does not end there. Treasury is moving beyond technical changes and considering a fundamental alteration in the process by which government bonds are sold at auction. And that's a shame, because it indicates that the bureaucrats haven't learned a crucial lesson of the Salomon scandal: When the Street talks, regulators should listen. If they were listening now, they would realize that no further tinkering with the auctions is necessary.

NO MORE SQUEEZES? The regulators seem to have forgotten the root cause of the Salomon scandal: the "short squeeze." By overbidding for two-year and five-year Treasury notes, Salomon wound up dominating the supply of the notes. That led to a shortage of the securities, which raised prices and thus hurt short-sellers, who were betting on a price decline. (Salomon has admitted to overbidding, but not to intentionally causing a short squeeze.)

The Treasury Dept., to its credit, has come down hard on short squeezes. The agency has stated that when an "acute, protracted shortage" of a bond or note issue develops, it will provide additional quantities of the security to the marketplace, through an auction or otherwise.

Traders who get hurt by short squeezes, and who were the first to

blow the whistle on Salomon Brothers, now say that shortages in Treasury securities still occur—but as a re-



sult of natural market forces, not market manipulation. "Now you get the feeling that the feds will step in and do something about it," says one government bond arbitrageur.

By taking steps such as this, and by increasing surveillance of the market, regulators have restored investor confidence in the government bond market. Plans to automate the auctions are also a step in the right direction. That can't be said for another Treasury initiative, however. In a case of bureaucratic auto-pilot, Treasury is going an unnecessary step further by trying out a new method of auctioning bonds.

Right now, Treasury uses a "multiple price" method. Sealed bids are submitted, and the lowest interest-rate bids are accepted. Thus, different "winning" bidders wind up with disparate yields. In the months ahead, the agency will be experimenting with a kind of

single-price auction—commonly known as a "Dutch auction."

Here, the auctioneer makes available the highest yield necessary to sell the bonds. Let's say the Treasury offers \$10 billion in bonds for sale and the lowest-yield bids are as follows: \$4 billion at 5.5%, \$3 billion at 5.55%, \$3 billion at 5.6%, and another \$1 billion at 5.65% or higher. All bidders who bid 5.6% or less would get 5.6%. Under the present system, only the bidder who bid 5.6% would get that yield; the other successful bidders would get lower yields—the so-called "winners' curse."

DUBIOUS BENEFITS.

Surprisingly, bond dealers like the idea. They resist that eliminating the winner's curse would encourage more "aggressive

low-yield bids, since "bidders would never wind up with lower-yield bonds than other bidders," says Olesky, vice-president of the Public Securities Assn., the Treasury bond dealers' trade group. Proponents say Dutch auctions would also reduce the possibility of bid rigging—as bidders would have less need to compare notes before the auction to avoid being awarded a low yield.

But the advantages of this system are dubious at best. In a joint report to the Treasury market last January, the SEC, Treasury, and Federal Reserve concluded that there is little evidence to support the view that Dutch auctions present a clear financial advantage for the Treasury.

What's more, the regulators acknowledged that Dutch auctions could provide an incentive to corner the market. Right now, a bidder who wants to do so must settle for a lower yield to ensure that the bid is accepted. Such a cost big bucks to manipulate the market. In light of the Salomon scandal, you'd think the last thing regulators would want to do is make it easier for unscrupulous traders.

On balance, regulators have done a fine job of fixing the auction system. Why risk breaking it?

Treasury's plan would help prevent bid-rigging—but make it easier for a firm to corner the market

DEEDED: A PRESCRIPTION FOR AILING INSURERS

n HMOs, their best hope, aren't curing feverish medical costs

Health insurers are hardly the picture of health these days. Profits for the \$210 billion industry are eeling as medical reimbursement swell. Scores of corporate clients ditching their insurance providers paying for most health coverage out of their own pockets. And insurers' answers to the problems—setting up special networks of physicians designed to curb costs, called managed care—is years away from paying off.

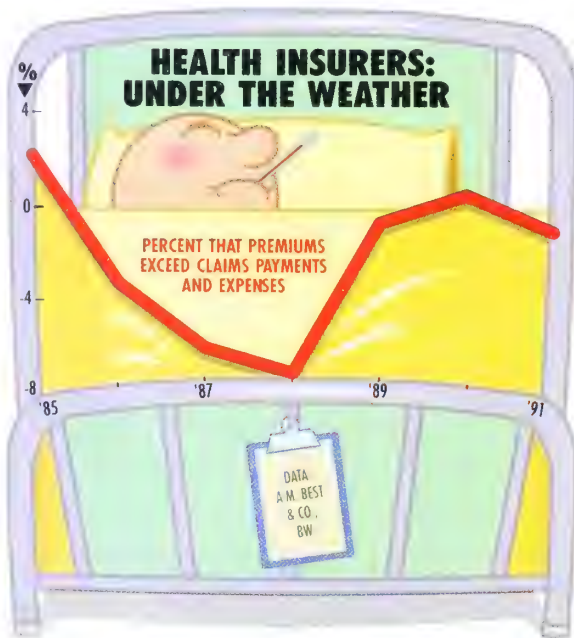
It's hard to see when profits rebound. Claims payouts and other overhead exceeded pre-a income last year (chart), this year's experience should even grimmer. At Prudential Insurance Co., for instance, costs ripped income by 1.1% in 1991. The only thing that saves health coverage is income from investments, which puts the industry slightly in the black. But interest rates falling, investment income is shrinking, too.

A respite is in sight from cost pressures. Medical inflation continues to roar ahead, even as other expenses ease. Health care outlays soared 11% in 1991 and are expected to stay in double digits the foreseeable future since the population is aging. At American Express Co., executives grouse about how premi-charged by Aetna Life & Casualty Co., their insurer, are climbing to 20% each year. But much of the cost passes straight through insurers to health professionals. Higher health-insurance premiums can "barely keep pace" with the increase in medical costs, says Salomon Brothers Inc. analyst Robert M. Alexandre.

PANACEA. The desertion of corporate clients to self-insurance leaves insurers with few crumbs. They get to administer the health plans for companies, but fees are tiny compared to the potential of underwriting a client. Now, 45% of large corporate America is self-insured. The brake on this trend is that self-insurance is seldom popular with employees, who often end up paying more for their bills out of pocket than under insurers' systems.

Insurers are placing a lot of hope in

the managed-care networks, in which groups of doctors and hospitals are signed up by an insurer and agree to hold down costs. By contrast, under the conventional indemnity system, patients go to the doctor of their choice and the insurer picks up the tab for an almost unrestricted range and frequency of services. Managed-care networks now provide more than one-third of all group insurance—up from 5% a decade ago—



and most experts feel it soon will be the dominant form of health coverage. Managed-care plans find great favor with employers. Two years ago, more than two-thirds of Digital Equipment Corp.'s 71,000 U.S. employees were on an indemnity plan. Now, two-thirds of the Maynard (Mass.) computer maker's workers use health maintenance organizations (HMOs), a type of managed-care plan. New indemnity coverage "has virtually disappeared," says Leonard E. Odell, vice-president of ITT Hartford Insurance Group's group-health unit.

At first blush, the promised savings make managed care look like a panacea. The Pru and CIGNA say they can hold annual premium boosts for managed care to half those of indemnity plans—and still are able to reap twice indemnity's profit margins.

But that's only part of the story. Setting up these health-provider networks is devilishly expensive. Before signing up, corporate clients usually want to see a massive nationwide web of medical professionals. Prudential in 1991 paid a large sum for the Johns Hopkins Health Plan in Baltimore, which covers 100,000 people. In 1991, after seven years at it, the Pru's \$2.6 billion national managed-care operation finally eked out a tiny profit. Losses can be astronomical. Aetna, which claims that its system will break even in 1992, lost almost \$100 million from HMOs in the past three years.

SCAPEGOATING? Small wonder that many insurers are heading for the exit from the health-care sector. Earlier this year, Lincoln National Corp. unloaded most of its health business to other carriers. Others retreating from medical coverage are Allstate, American General, Equitable, and Transamerica, which have sold off most or all of their health business over the past two years. That leaves the field to giants like Aetna, CIGNA, John Hancock, Prudential, and Metropolitan Life.

The remaining insurers are trying to capture elusive profits by squeezing expenses—which can mean cracking down on alleged overbilling by health providers. On July 31, eight insurers, including the Pru, filed suit for fraud against National Medical Enterprises Inc., accusing it of billing them for psychiatric treatment or drugs that either weren't furnished or were unnecessary. The Santa Monica (Calif.) company denies the charges and argues that the insurers are making it a scapegoat for their own financial woes. Insurers are attacking overhead as well, by closing claims offices and offering electronic payment to providers, which reduces costly paperwork.

Overshadowing all these efforts, however, is the government question. Health costs and availability are a major issue in the Presidential race. President George Bush supports incentives to spur more managed care. Arkansas Governor Bill Clinton, while backing managed care, wants the states and Washington to set fees for doctors and hospitals.

That idea scares insurers witless because government intervention could put a lid on future earnings, such as they may be. But unless the carriers can provide adequate health coverage at rates that companies and individuals can afford, insurers may remember today's meager profits with longing.

By Tim Smart in New Haven, with Eric Schine in Los Angeles, Gary McWilliams in Boston, and bureau reports

BY GENE G. MARCIAL

BUY ONE, GET ONE FREE AT SEARS

For years, Sears Roebuck has been trying, with little success, to shake off its image as a stodgy retailer. And its stock has gone almost nowhere. Then earlier this summer, Sears was found to have overbilled customers in its auto-repair shops. Not surprisingly, the stock was zapped. Trading at 41, it sells just above book value in a stock market that on average trades at more than twice book. But some pros think now is the time to jump in.

They say that Sears' financial-service companies, Allstate Insurance and Dean Witter Financial Services Group, are money machines. "When you buy Sears stock at this price, you are buying a great financial-services company and getting a retailer for free," argues analyst Peter Siris, a vice-president at UBS Securities.

Second-quarter earnings for the financial-service group showed sharp double-digit gains, notes Siris. He also thinks that Sears has made enough operational improvements and cost reductions to provide shareholders with something they haven't seen for a long time—a positive earnings surprise. Even if merchandising posts just marginal gains, says Siris, earnings should hit \$4.95 a share in 1992 and \$6.05 in 1993 vs. only \$3.71 for 1991. His estimates are higher than other Street estimates on Sears.

SPIN-OFFS? But to make Wall Street take notice, Sears is going to have to perk up its retailing efforts. On Aug. 10, the company hired Arthur Martinez, vice-chairman of upscale retailer Saks Fifth Avenue, to take charge of the merchandising group. Siris thinks the new executive will work quickly to boost flagging retail fortunes. Among some of the possible changes, he says, would be a sale of the money-losing catalog business or sporting goods and home-improvement units.

Value investor Mark Boyar has his eye on more than earnings. He expects Sears to spin off to shareholders one of its financial-service units, perhaps Allstate. A spin-off, Boyar says, "has proven to be an effective means of enabling a company's underlying value to be recognized quickly in the marketplace." The company's combined as-

SEARS ROEBUCK: IS IT OVERDUE FOR A REBOUND?



sets are worth \$75 a share, he thinks.

Oppenheimer analyst Bernard Sosnick says that as a free-standing company, Allstate is worth about \$12 billion, or 12 times its estimated 1992 earnings of \$1 billion. That comes to about \$32 per share of Sears—not bad for a \$41 stock.

If Sears' retailing results continue to disappoint Wall Street, Sears Chairman and CEO Edward Brennan and the board may have no choice but to start selling some of those rich financial holdings, says Sosnick. Pressure will mount for management to start cashing in on the company's huge asset value, he believes.

WHAT HAS THIS BIOTECH PUMPING?

When Cardiovascular Imaging Systems went public in mid-May, it had to do a double-cut: It slashed the planned offering price from a wide 13-to-15 range all the way down to 7 a share. And it reduced the offered shares from 2 million to 1.5 million. "That was the only way to get the deal done," says one fund manager, "because the biotechs were under tremendous pressure." Yet the stock rose to 9 a few weeks after the offering and is now trading at 8½.

How come? The outlook for this company's proprietary technology and products is bright, and the stock is cheap at this price, says the editor of the *California Technology Stock Letter*, Mike Murphy, who is usually skeptical about biotech upstarts. Imaging makes an intravascular ultrasound imaging catheter that can be inserted into

the artery to get a clear picture of the composition and distribution of atherosclerotic (fatty) plaque.

One company very interested in Imaging is SciMed Life Systems, which has taken a 6% stake. SciMed has agreed to jointly develop and market some of Imaging's products for coronary and peripheral vascular applications. The Food & Drug Administration has approved the marketing of four Imaging's catheters and its Insignia System, a computerized processing system that provides a video image of an artery. On June 23, the FDA allowed the use of the catheters in the heart to evaluate heart motion, valve performance, and artery diseases.

Murphy expects sales, which doubled to \$6.8 million last year, to keep that pace over the next few years. He figures the company will still be in the red this year but may break even in 1993. He sees earnings of 50¢ a share in 1994 and \$1 in 1995.

A BURGER JOINT THAT COULD SIZZLE

Is there room for yet another hamburger chain in the crowded fast-food industry? The bears are convinced a new entry can only fail, as they are shorting Checkers Drive-Ins Restaurants, a fledgling burger operation that started up in 1988. Wrong, says veteran restaurant industry analyst Roger Lipton of Ladenburg Thumann. He thinks Checkers, four years mainly throughout the Southeast, will be a big winner.

The company, he notes, has been growing at breakneck speed, with the number of its eateries more than doubling from 56 in 1990 to 117 last year. That figure is expected to increase to 218 by the end of 1992. Checkers' strategy: Serve a limited menu at cheap prices—with fast service.

Checkers' stock has zoomed to high 36 a share in March from 14 in late 1991, when it went public. It has since eased to 31. The stock has caught the attention of the shorts, who note that it is trading at a lofty price-earnings ratio of 46. Betting on a collapse, they have sold short some 1.4 million shares, which comes to 10% of the shares outstanding.

Lipton believes the shorts could be squeezed. "The stock could double in price in another 12 months," he says. Lipton figures that Checkers, which earned 30¢ a share last year, will make 67¢ this year and \$1.05 in 1993.

BOTTOM OF THE NINTH THE CITY BY THE BAY?

Giants' move to St. Pete looks likely. Here's why

Does the White Elephant Dome finally have a tenant? For almost a decade now, St. Petersburg has been waiting for a big-league team, any team to come play in its \$128 million Suncoast Dome. So when St. Petersburg officials announced on Aug. 7 that a local investor group had agreed to buy the San Francisco Giants from real estate tycoon Bob Lurie, St. Pete baseball boosters were ready to welcome them. Mayor Will Clark and his teammates, in hours, T-shirts on the streets of St. Petersburg proclaimed "A Giant Comes True," as horns blared and newspapers cranked out special editions. "This area has been waiting for J day after the war," says St. Pete assistant city manager Tom Dodge, who led the local effort to lure baseball. Optimists say the celebration is premature. After all, the city's baseball

the owner of the Chicago White Sox.

The campaign to keep the Giants in Frisco lost a prime candidate for savior when potential investor H. Irving Grousbeck, co-founder of Continental Cablevision, walked away from any deal after looking at the team's financial future.

Besides all that, a number of AL owners feel that they owe the citizens of St. Pete a favor. At one time or another during the 1980s, the Athletics, White Sox, Minnesota Twins, and Texas Rangers feinted toward the Florida

city. And Milwaukee Brewers owner Bud Selig encouraged St. Pete's abortive bid for the National League franchise that eventually went to the Florida Marlins, who will be based in Miami.

Moving the Giants might also get Major League Baseball Commissioner Fay Vincent out of a jam. In July, he ordered a realignment of the National League, shifting the Chicago Cubs and the St. Louis Cardinals to the Western Div. and the Cincinnati Reds and Atlanta Braves to the Eastern. The Cubs, fearing that extra night games on the West Coast would cut their television audience, have obtained a court injunction blocking the rearrangement. Vincent may eventually prevail in court, but the Giants' sale offers him a chance to play the diplomat. "Maybe he can find some way to make the Cubs happy," suggests former Commissioner Bowie Kuhn. Vincent could

use a coup on realignment to shore up his fading support among the owners.

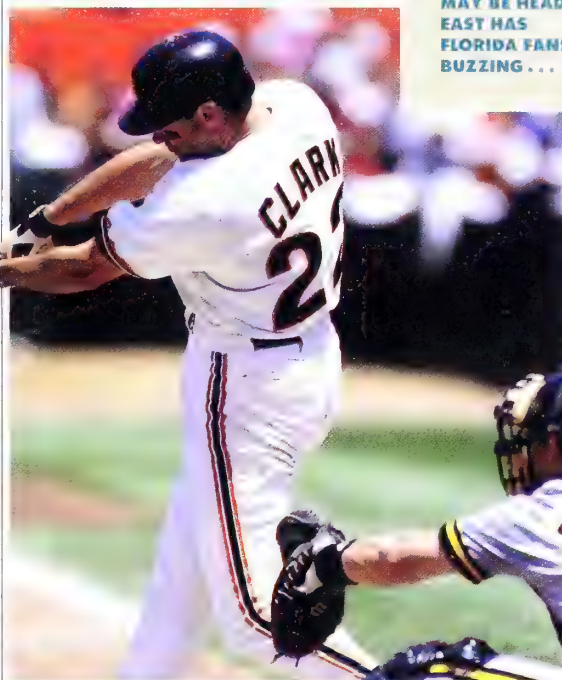
VOTING AYE. Vincent's big worry right now may be about St. Pete's ownership group. Recent revelations about former Phar-Mor President Michael Monus, an investor in the NL's other expansion

team, the Colorado Rockies, have raised questions about how thoroughly the leagues check the credentials of prospective owners. But similar surprises about the St. Pete investors do not appear likely. Naimoli and fellow owners Mark Bostick, J. Rex Farrior Jr., Vincent Piazza, and Vincent Tirendi are not known to have any associations or background that would botch their approval, say Florida business sources. Most owners seem to share the mood of Bill Giles, president of the Philadelphia Phillies. "Unless we find out something [bad about the ownership group] that we don't know now," he says, "I'm leaning toward voting for" the move.

Even so, the vote will have its moments of suspense as owners from both leagues maneuver for concessions in exchange for their support. Of course, if the move is approved, baseball will lose one prime asset: an empty stadium beckoning restless teams. As baseball's expansion process proved, though, there's no shortage of cities desperate for a major league team. A victory for St. Pete would just give them new reason to hope.

By David Greising in Chicago and Harris Collingwood in New York

THE NEWS THAT
CLARK AND
TEAMMATES
MAY BE HEADED
EAST HAS
FLORIDA FANS
BUZZING...



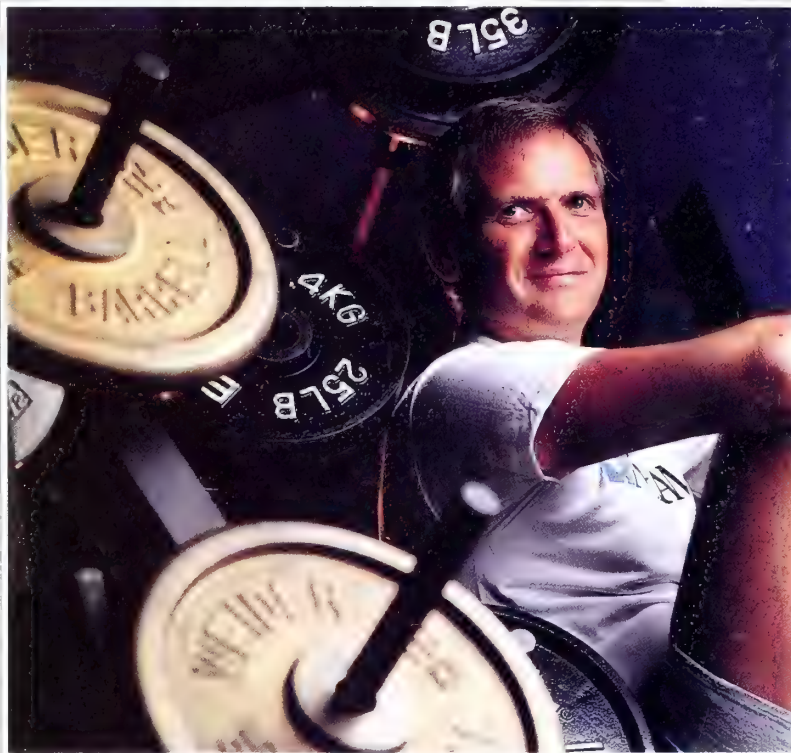
... AND WOULD MEAN VINDICATION FOR BUILDERS OF THE LONG-DORMANT "WHITE ELEPHANT" DOME

'SUPERSERVERS' MAY MAKE SOMEONE SUPERRICH

Both big guys and startups are vying to sell the machines at the heart of computer networks

By the time Saatchi & Saatchi Advertising Worldwide got 850 personal computers plugged into its office network, the New York agency was having big problems. Transmitting messages and ad layouts between PCs was taking too long. So was managing Saatchi's 17 "file servers." These were ordinary PCs crammed with data and programs for all of the network's computers to share. In the past, replacing them with a mainframe or minicomputer would have been the answer, but that expense seemed prohibitive. Instead, Saatchi got the job done with just three "superservers" from NetFRAME Systems Inc.

Call them PCs on steroids or mainframes on a diet: Superservers use inexpensive PC technology to focus near-mainframe power on maintaining shared files and running big programs for large networks of PCs. Most such networks rely on standard PCs that have been upgraded with large-capacity disk drives. But that's like using a Hyundai to haul entire trailers of Hyundais. Superservers do far better at moving chunks of data around networks because their internal designs mimic mainframes—specifically, by employing data pathways, or "buses," that shuttle data at far higher speeds than PCs can achieve. Although superservers sell for as little as \$11,000, or about half the price of the smallest minicomputers, they have the power to make PC networks the backbone of corporate information systems. "Our company's business runs on these things



PCs ON STEROIDS: TORRESI'S STARTUP, NETFRAME, IS GAINING MOMENTUM

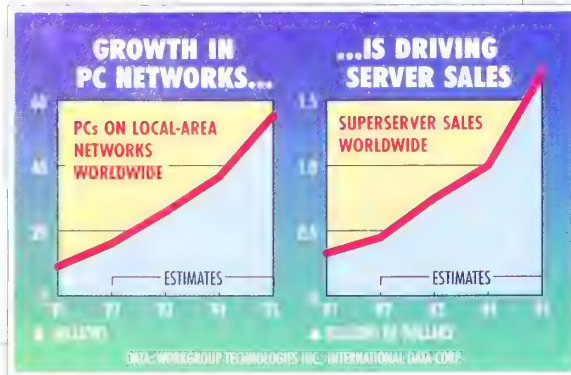
now," says Saatchi Vice-President Stewart Riegler.

That's a big change from when the first superservers came out in 1989. Then, with little software available for the machines and few PC networks big enough to need them, sales were slow. Now, superservers finally seem poised to take off. The software is there, and local-area networks (LANs) can easily in-

clude hundreds of printers, and other devices. The number of PCs connected to LANs will jump sixfold in 1995, to 55 million, predicts WorkGroup Technologies Inc., a Hampton (N.H.) market researcher (chart). That will push superserver sales to a \$1.7 billion business in 1995, says market researcher International Data Corp.

WAKE-UP. Such predictions are fueling the hopes of superserver startups such as NetFRAME Systems in Milpitas, Calif., and Tricord Systems Inc. in Plymouth, Minn., as well as PC maker Compaq Computer Corp. Says analyst Peter J. Rogers of Robertson Stephens & Co., a Tricord investor, "The superserver business is the last great opportunity to build a [computer] systems business."

Only first, the startups have to take on established computer makers, who are also waking up to the new opening. Until recently, the big guys avoided selling servers built from the same mass-produced Intel Corp. microchips used in PCs. Instead, IBM, Digital Equipment Corp. and Hewlett-Packard argued that their minicomputers and mainframes were faster and offered better software. They still make that argument. But because growth in sales of such "big iron" is less than 5% a year, they're also eager to enter new markets. DEC and American Telephone & Telegraph Co.'s NCR Corp. unit, for example, now sell superservers based on Intel 486 chips. In June, IBM's Personal Systems Div. bought a minority stake in superserver start-



llan Computer Inc. IBM will sell Par- machines with the IBM logo. timately, superserver companies d like to be in the vanguard of the nsizing" revolution, which seeks to ad major chunks of work from frames to LANs. That's a key thrust orkstation maker Sun Microsystems s server effort (box).

UGH TIME. Customers, however, are wary of betting critical tasks on oven computers. IBM and DEC are ing to reprogram their large mas as servers while emphasizing the machines' proven reliability. Says analyst Susan T. Frankle: "Startups going to have a tough time."

he biggest winner so far is Compaq. year, it sold about \$200 million h of its SystemPro servers. Though rsts consider some SystemPro mod- tile more than souped-up PCs, Com- plans to introduce more powerful ers this fall. The startups, mean- e, are riding steep acceleration es. NetFRAME, which raised \$30 mil-

lion in venture capital, followed by \$21 million from an initial stock offering in June, reported that sales for its second quarter, ended July 3, had more than doubled over last year's—to \$9.1 million. Profits were \$508,000, compared with a \$1.2 million loss. Tricord, which recently withdrew its \$36 million IPO, citing a soft market, saw first-quarter sales, ended Mar. 31, jump 273%, to \$7 million.

New software designed for specific business problems should give super- server sales a kick. Mainframe software houses, including Dun & Bradstreet Software and IMRS Inc., along with smaller companies such as PeopleSoft, now sell mainframe-class general-ledger, accounting, and personnel packages just for PC LANs. The emergence of such pro- grams, says NetFRAME President Enzo Torresi, signals "the end of an era"—the age of high-priced, centralized main- frames. Now, it's up to the superserver startups to fight for their place in the new era of networked computing.

By Robert D. Hof in San Francisco

SUN MICROSYSTEMS SUDDENLY SEES THE LIGHT

Busy keeping up with demand for its flashy Unix-based worksta- tions, Sun Microsystems Inc. d to treat network servers as an erthought. "We used to build a kstation, cut its head off, and call it server," admits Sun Vice-President l Gadre. As a result, competitors h as Auspex Systems Inc. and Sol- rne Computer Inc., with servers ially designed for kstations, began win- g high-profit sales at 's largest customers. t year, Auspex' sales d, to about \$55 ion.

ut now, Sun is push- the servers with the vor of a convert. Last tember, it introduced dels that combine as ny as four of its re microprocessors. d in April, it brought smaller machines to ppete with "superservers" in PC works.

CE WAR. Sun has big ambitions in vers. They could help it bust out of traditional engineering markets and ore workstation networks to ks and other mainframe-oriented erprises. Besides, servers are more fitable than workstations. Analyst rry F. Willman of Sanford C. Bern-

stein & Co. figures that Sun gets 55% gross margins on servers vs. 47% on workstations—a gap that will widen as the workstation price war intensifies. Competition from IBM, Hewlett-Pack- ard, and Digital Equipment helped low- er Sun's earnings 43%, to \$37.7 million, in its fourth quarter, ended June 30.

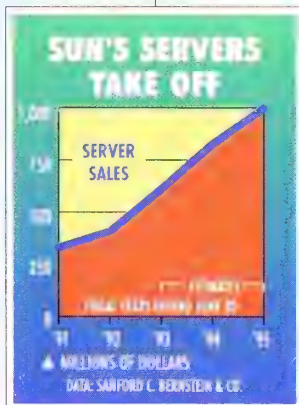
So far, Sun's new push has paid off. It has sold 5,500 new servers and up-

grades on older ones since last September—more than any of its di- rect competitors. Some of that gear helped con- quer new markets. Cana- dian beer distributor Brewers Retail Inc., for instance, recently moved work from a mainframe to Sun servers.

The startups aren't do- ing so badly, either, though. Auspex has even signed up IBM and Digital Equipment Corp.

to resell its servers. Overall, sales of computers for use as servers running American Telephone & Telegraph Co.'s Unix operating software—a standard among workstations—will grow from \$1.3 billion in 1991 to \$4 billion in 1996, predicts market researcher International Data Corp. That's a market that any computer maker might like to serve.

By Robert D. Hof in San Francisco



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LIGHTS, CAMERA—PC?

Desktop-video gear is getting more nimble—and less costly—fast

You're home watching TV, and you're sure you could do it better if you only had access to a big studio. Well, that fantasy may soon come true, thanks to the merging of computer and video technology that will let just about anyone edit videotape and add special effects—all with a PC-based system costing a few thousand dollars.

"Desktop video is the natural successor to desktop publishing," says John E. Warnock, president of Adobe Systems Inc., whose PostScript software helped create the huge desktop-publishing business. As with desktop publishing, which gave ordinary personal-computer users the tools to turn out newsletters, brochures, and other slick documents, desktop video promises to make video auteurs out of camcorder amateurs.

Warnock, whose company is now pushing video software, envisions a cottage industry of small-scale producers cranking out industrial films, ads for local TV, and wedding videos. Dow Chemical Co. engineer B. Scott Ruble, for example, is using a Macintosh IIfx equipped with special video chips and circuit boards, plus software for editing and digitizing videotape images, to produce the equivalent of a scientific paper on video. He uses a camcorder to document stress cracks in plastics from certain types of impact, adding explanatory text and graphics to show to colleagues and customers. "There are some things you just can't capture in words," says Ruble.

While eager suppliers, such as Adobe, Radius, and SuperMac Technology, hope to create a mass market, desktop video is currently the province of a select few,

Some 10,000 professional broadcast producers have adopted desktop computer-editing systems, spending as much as \$80,000 per system, estimates William L. Coggs, president of New Media Research Inc. No wonder: Professional video-editing studios, chock-full of high-tech gear, can cost anywhere from \$750,000 to \$2 million.

Until a few years ago, these expensive

the Video Toaster—an add-in board and software that connects the Amiga directly to videotape machines, allowing computer to create special effects. The result: a \$5,000 setup that can do much of the work of editing equipment costing \$100,000. Jerry Coffield, an analyst at In-Stat Inc., figures about 100,000 Video Toasters have been sold since 1990, generating some \$25 million in annual revenues for privately held Newtek.

CHIPPING IN. Top PC makers and other technology companies are pushing a step beyond the Toaster, which basically serves as a computerized editor for analog tape. They are creating products that can digitize and manipulate the video signal. Apple Computer Inc., already a leader in desktop publishing, in 1991 began including a program called QuickTime with most Macs. QuickTime lets any Mac act like a VCR by digitizing

video images for playback on the computer screen. However, instead of meeting the commercial broadcast standard of 30 frames per second, QuickTime can run on 15 images a second, resulting in jagged-edge pictures.

That has given chip makers a chance to get into the act. They're building special microchips to speed up the digitization process and improve resolution (page 7). RasterOps, Avid Technology, Radius, and SuperMac are building those chips into circuit cards for Macs. Meanwhile, software makers like Adobe, Diva, and Cromedia Publishing have created programs for editing and adding special effects. Many of these are also being adapted for IBM-compatible PCs, but PCs lag behind the Mac because their operating systems don't have the equivalent of QuickTime.

Increased competition means that the cost of desktop-video components is dropping fast. "Within a year, there will be \$1,000 video boards," says James Anderson, vice-president of video chipmaker C-Cube Microsystems. "At that price, you're blasting right into the home market."

So far, though, the new technology is still primarily used by professionals.

SO, YOU WANT TO BE IN PICTURES?

What you need to make a desktop video:



facilities were the only way to create special effects, such as superimposing graphics over a live video image or pasting together scenes that dissolve smoothly from one into another. Then, Commodore International Ltd. introduced the Amiga 2000 personal computer, which can generate a video signal as well as handle sharp graphics and sound. That gave Newtek Inc. in Topeka, Kan., a platform for what it dubbed

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the past eight months, Viacom International Inc. has been running a project at its MTV Networks calls DTV, for desktop video, that is exploring several different PC-based video systems. Bob Meyers, vice-president of Viacom's network operations and head of the project, says DTV is trying to create an inexpensive digital editing network but the current technology can't execute the rapid-fire image changes and crazy graphics that MTV favors. "We're a little frustrated," he says. "But we get a little less frustrated and a little bit more pleased" as the technology evolves.

Still, professionals are already using desktop setups to cut costs. After tape is converted to digital form, editors can quickly scan to whatever scene they need, mark it, and create a rough cut. Then they make the final product with professional equipment. That process alone can produce significant savings, since it can cost \$1,000 an hour to use a professional edit room. "I can do exactly what I want for the price of my own time and some electricity," says Harry Marks, president of Marks Communications Inc., a Hollywood producer of promotional tapes and graphics.

STORAGE SNAG. The edit room may eventually be completely eliminated, but not anytime soon. The holdup is the massive storage capacity required for digitized images. A disk drive that can store more than a billion text characters—about 500,000 pages—can only hold 15 minutes of video footage. Special chips can compress those images, but the more you compress, the worse the image quality.

Such technical barriers could limit the market for years. "It has been a zero-billion-dollar industry," jokes Cathy R. Galvin, a marketing manager at SuperMac, a maker of video-processing circuit boards. Market researcher Cogshall thinks a mass market, à la desktop publishing, will be slow to build. Once the country's 250,000 corporate-video producers switch to desktop, he says, there may not be many more buyers. Why? Creating a written document is infinitely easier than creating a good video. "You still have to have trained people with a good eye for what looks good," says Cogshall.

But that's too narrow a view for desktop-video aficionados. "People don't realize how easy this is to do," says Jon Leland, a Mill Valley (Calif.) producer and owner of Communication Bridges, a consulting firm that provides training in the new technology. If he's right, perhaps even schoolchildren will someday be creating homework on videotape—showing rather than telling how they spent their summer vacation.

By Richard Brandt in San Francisco, with Lois Therrien in Chicago, and Paul M. Eng in New York

Science & Technology

SEMICONDUCTORS



A TI RESEARCHER WITH A CHIP AND HDTV IMAGE: VIDEO PROCESSOR SALES ARE SOARING

THE BLAZING BUSINESS IN VIDEO CHIPS

HDTV and multimedia machines will power a vast new market

Keeping track of the global race in semiconductors once was easy. Japan dominated memory chips, and America had a lock on microprocessors. Then, electronics makers dreamed up an array of new products from digital high-definition TV and videophones to multimedia technology, which merges computers, TVs, and phones. Bringing these to life requires a new breed of powerful chips that capture, compress, and display moving images. "The need for chips that process images is going to become universal," says Masataka Hayashida, Texas Instruments Inc.'s worldwide consumer strategy manager in Tokyo. And the battle lines are being drawn in what could soon be the industry's fastest-growing sector.

The chipmakers are tackling one of the biggest engineering challenges of the decade. It takes blazing speed and vast amounts of memory to handle color video in a computer or digital TV set. In the digital language that computers use, a single still color picture takes up about four megabytes, or 32 million bits of data, more than the main memory capacity in most PCs. To create a realistic moving image, 30 such frames must be scrolled across the screen each second.

Even powerful disk drives that can store months' worth of spreadsheets would be swamped by just a few minutes of motion video.

IN A FLASH. To cope with such demand, semiconductor makers are perfecting an array of different chips (chart). Specialized memory chips, called video RAM, store images in the machine's main memory. Others use mathematical tricks to compress the image, manipulate it on the display screen, or transport it across a network. It all has to happen so fast that the human eye sees a smooth, moving picture.

The rewards for achieving such mastery will be huge. Analysts foresee a global market for chips that, working together, produce stunning results: videos to mix images, data, and animated special effects, or digital TV sets that make teleconferencing a living-room pastime. Sony Corp. Managing Director Masahiro Takahashi says chips could account for 30% of a \$160 billion global multimedia market by the end of the decade.

For most chipmakers, this market is taking off just in time. Battered by a global recession, Hitachi, Toshiba, and Fujitsu have slashed capital spending for conventional memory chips,

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HDTV takes off, he
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bound to outstrip those
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meantime, the need for complex chips
manage digital HDTV and advanced
onferencing systems could play
America's strengths. American Tele-
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Motorola pioneered the hot-growing
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be displayed.

NG AIM. Such innovations may be a
itable edge. Sales of digital video
essors should balloon from just \$20
on in 1990 to \$346 million in 1996,
rding to Dataquest—a 52% com-
d annual growth rate. In a few
s, "almost every PC and workstation
he market will combine video, audio,
and computer graphics into one

HOW CHIPS CAN MANIPULATE IMAGES

Semiconductor makers are finding new markets in specialized graphics chips for multimedia personal computers, workstations, digital HDTV, video phones, and other gear

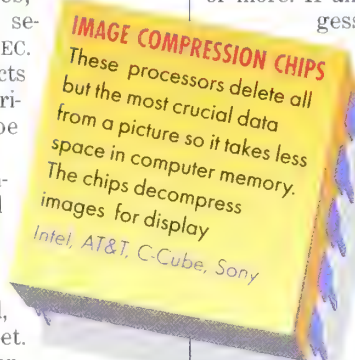


revolution shapes up. "If it is mainly an audio/video movement, that could benefit Japanese companies," says Shizuo Eguchi, a senior chip manager at NEC. "But if the main products turn out to be PCs, American companies will be stronger."

For now, in fact, companies such as Sony and Matsushita Electric Industrial Co., stretched thin by their recent investments in Hollywood, are far from a sure bet. At Sony's semiconductor headquarters in Atsugi, Managing Director Takahashi wants to

integrated environment," says James H. Clark, chairman of workstation maker Silicon Graphics Inc.

Asian electronics powerhouses have jumped on each new development from Silicon Valley. NEC and Fujitsu Ltd. are coming on strong in DSPs. Consumer-electronics giant Sony Corp. has taken aim at specialized graphics processors. And the chip houses of South Korea and Taiwan have targeted some of the same niches. The winners may depend on how the multimedia



increase the company's diverse chip production—now at \$1.6 billion a year—by focusing on graphics controllers based on a design it licensed from Silicon Graphics Inc.

But Sony won't be alone. Fujitsu makes graphics controllers based on designs by Sun Microsystems Inc. And two Taiwanese chipmakers,

Winbond Electronics Corp. and Macronix International Co., have signed similar pacts with Hewlett-Packard Co. and Silicon Graphics.

As the competition heats up, mounting development costs are sparking numerous alliances. American leaders LSI Logic, VLSI Technology, Texas Instruments, and Motorola Inc. have signed on with Japanese

consortiums that are trying to streamline the number of chips in Japan's analog HDTV sets. Although that market hasn't taken off, these partnerships offer U.S. chipmakers a chance to design advanced chips into Japanese consumer-electronics products—a longtime goal of U.S.-Japan trade talks. Two years ago, TI unveiled a chip that improves color and speeds up positioning of video signals on the screen, a key to picture-in-picture displays for TVs. TI has also joined an HDTV consortium that includes Sony, Fujitsu, and Hitachi Ltd. Now, Sony and TI may collaborate to develop a second generation of TI's chip, which Sony could build into high-definition TVs.

IN THE POCKET. Meanwhile, with Philips N. V. in Europe, Motorola is working on new methods for compressing and decompressing video images. Using mathematical formulas, or algorithms, that squeeze unnecessary information out of moving pictures, Motorola thinks it can slim down each image by a factor of 150 or more. If all goes well, says Ray Bur-

gess, a top Motorola chip executive in Europe, "we'll have a pocket videophone by the end of the decade."

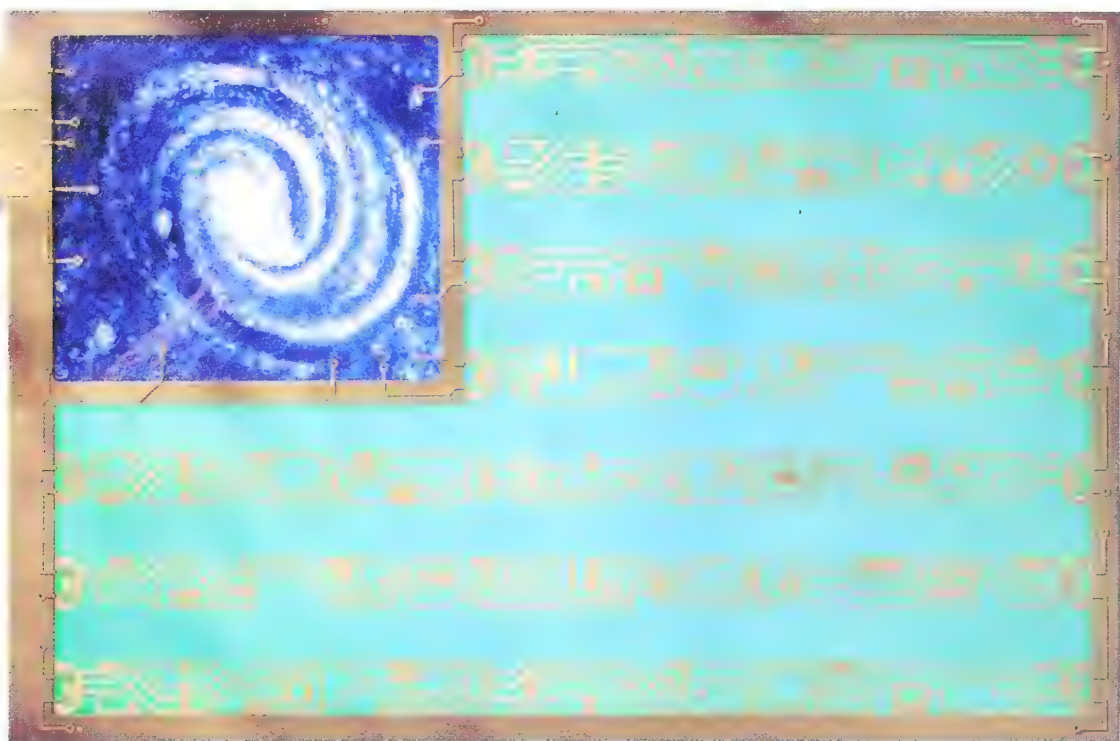
By then, some analysts say, microprocessors may do graphics jobs now handled by separate chips. Even as Intel Corp. has poured millions into DVI, a compression chip, its top engineers are working on a new "superchip" with four processors, 100 million transistors, and a peak performance of 2 billion instructions per second.

Such powerful microprocessors could compress and decompress live video signals, control the display and disk drives—and at the same time serve as the computer's main processing unit. If Intel can pull it off, declares Yutaka Karasawa, marketing manager at Intel Japan, "the current generation of video chips won't exist in another five years."

Other chip executives disagree. Such all-in-one processors, they contend, will match specialized video chips neither on price nor performance. Either way, one thing is abundantly clear: If multimedia, HDTV, and other electronic wonders arrive on schedule, chips that deliver digital images will be where the action is.

By Neil Gross in Tokyo, with Richard Brandt in San Francisco and Jonathan B. Levine in Paris





REINVENTING AMERICA

There's a New World to be explored, and America's scientists and engineers are the pioneers. How American innovation and productivity can stay ahead are just two of the subjects covered in Reinventing America, the fall 1992 bonus issue from Business Week. It's where American business will see the world from the cutting edge. Let them see your advertising as well. Contact Karl Spangenberg, Sr.VP/ Advertising Sales, at (212) 512-4154 or your Business Week account manager.

Issue date: October 23rd. **Closing date:** September 7th.

BusinessWeek
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[*Stars and Circuits Forever* Original Sculpture Commissioned by Business Week.]

Developments to Watch

D BY EMILY T. SMITH

MUCH FOR STEERING THE STARS



Mariners may soon have the ultimate chart. Researchers at the Woods Hole (Mass.) Oceanographic Institution are testing a computerized navigation system that plots course using electronic "maps" of the ocean and satellite-fed positioning data. The system's designers say it could save time and help avert oil spills and mishaps such as the

sinking in early August of the liner Queen Elizabeth II. Called the Electronic Chart Display and Information System (ECDIS), it's intended to make paper charts and compass bearings obsolete. The electronic maps can be updated easily with current information on submerged wrecks and storm-created ice bars. Using data from an existing global system that tracks vessels, the ECDIS knows a ship's location within 24 feet. Developed with Intergraph Corp. in Huntsville, Ala., the system will reach market in 1994, after the U.N.'s International Maritime Organization sets specifications. But its \$50,000 price may force weekend sailors to stick to a compass.

IS THEORY MAY MAKE SENSE COLD FUSION

When Ronald A. Brightsen was a graduate student in nuclear chemistry at Massachusetts Institute of Technology in the 1940s, he discovered an isotope called arsenic-78, a short-lived product of uranium fission. His experiments set the stage for a radically new theory of nuclear physics that took shape in the mid-1980s and finally leapt into the spotlight Aug. 10, when Brightsen unveiled it. He contends that his theory of the structure of the atomic nucleus cracks the riddle of cold fusion, at last describing the mechanism by which hydrogen atoms fuse to produce the energy cold fusion advocates claim to detect. If he's right, fusion in a jar of water may be possible.

Brightsen's theory was already laid down by the time the widely controversial experiment in cold fusion was announced at the University of Utah in 1989. As a safety expert at Westinghouse Electric Corp. and other nuclear power projects, and then as a senior staffer on the Nuclear Regulatory Commission, Brightsen was never comfortable with the "edge factors" used to reconcile theoretical physics with actual results. He wanted a theory that would more accurately predict how much energy would be produced in any nuclear reaction. He got it when he conceived a model of the atom's nucleus with neutrons and protons clustered together not randomly, but in certain precise ways. The energy bound up in the clusters can be released several different ways, which explain why cold fusion experimenters report forms of energy that conventional physics doesn't account for.

In 1985, Brightsen founded Nuclear Science Research Corp. in Reston, Va., to test his theory, partly with computer simulations. Most of the few scientists who knew of the effort were underwhelmed. "I wasn't very impressed," recalls Man-

son Benedict, the retired head of MIT's Nuclear Engineering Dept. Not so the Electric Power Research Institute (EPRI), the utility industry think tank in Palo Alto, Calif., which helped fund Brightsen's work. "What he's got is very difficult to argue with," adds consultant Walter Loewenstein, past president of the American Nuclear Society. "Whether it conforms to reality is the question." To find out, Brightsen is spinning NSR into Clustron Sciences Corp., which will be based in Vienna, Va. The company expects to begin work on a cold-fusion power system this fall.

ONE STEP TOWARD STOPPING THE NEW TUBERCULOSIS

Like a movie monster that refuses to die, tuberculosis is making a comeback. Scientists thought they had brought the disease under control with antibiotics in the 1950s and '60s. But since then, the tuberculosis-causing bacterium has evolved into drug-resistant strains, so cases are soaring.

Medicine is poised for a counterattack, however. Working with colleagues in France, scientists at London's Hammer-smith Hospital have figured out how the tuberculosis bacterium evades drugs. The microbe's secret, the researchers reported in the Aug. 13 issue of *Nature*, is a single inoperative gene. This gene normally activates an enzyme that alters an antibiotic, changing it from harmless to deadly. Without the enzyme, the drug remains harmless.

The gene sleuthing opens the door for new drugs. One solution is simply duplicating the enzyme's effect by administering a converted form of the antibiotic rather than the original drug. Another is using the new information to figure out how the enzyme-altered chemicals actually kill microbes, then designing drugs that attack the same targets. The new discovery, concludes public health expert Dr. Barry R. Bloom of the Albert Einstein College of Medicine, "offers hope that molecular genetics may be one way to tackle the emerging problem of drug-resistant tuberculosis."

COMING SOON: HOUSES WITH BUILT-IN SUNSCREEN

First, there were "smart windows" that modulate light. Now, it's smart walls and roofs. Suntek Inc. in Albuquerque has rolled out a prefabricated building component for roofs and walls that automatically controls the amount of solar light and heat that enters a building.

The panels encase a layer of a clear plastic film composed of water-soluble hydrocarbon copolymers, which transmit solar heat and light, then turn white to reflect both. The fibers of the copolymers are elongated when cool, making them thinner than the wavelengths of solar radiation, so 90% of the sun's rays enter. When the polymers warm up, they form microscopic globs that keep out sunlight. By varying the proportion of the polymers, it's possible to set the film's transition temperature anywhere from 60F to 150F. Suntek President Roy Chahroudi says the panels can handle most space heating needs and slash air-conditioning costs.



MASTERING THE MAZE OF FUND LOADS AND FEES

In the 1980s, eye-popping returns on many mutual funds made sales charges seem a small price to pay for a share of the action. In the more sober 1990s, however, sales charges and expenses will likely eat up a larger portion of profits. While performance should always be the focal point for potential investors, a thorough examination of the fee schedule in a fund's prospectus can have more of a payoff than in the past.

On the surface, funds with lower sales charges, or loads, and lower expenses seem to have an obvious edge. But the issue isn't so cut and dried. Funds with high loads can outperform no-load funds, and funds with high expenses can produce better returns than funds with low expenses. So while keeping an eye on loads and expenses is important, investors shouldn't be obsessed with buying the cheapest fund they can find.

COMPLEXITY. Figuring out what impact the sales charges and expenses have on your return is getting more difficult. Along with traditional front-end-load and no-load varieties, more funds have added what some in the industry call a spread load—officially it's a "12b-1 fee"—to the mix of expenses. It shaves a set percentage off the fund's total return each year for a set number of years. The fee is often coupled with a deferred sales charge, or back-end load, which may be up to 6% in the first year but gets lower the longer a fund is held. You pay a back-end load only if you cash out of the fund.

Fee schedules are tougher to decipher today, but there is some good news on the load scene: Of the 2,400 funds tracked by Chicago's Morn-

ingstar Inc., only 30 or so carry the maximum allowable load of 8.5%. The bad news is that, while pure no-load funds still exist, many old-line no-load funds are becoming low-load funds, with sales charges of 2% to 3%. And expenses have been rising, too.

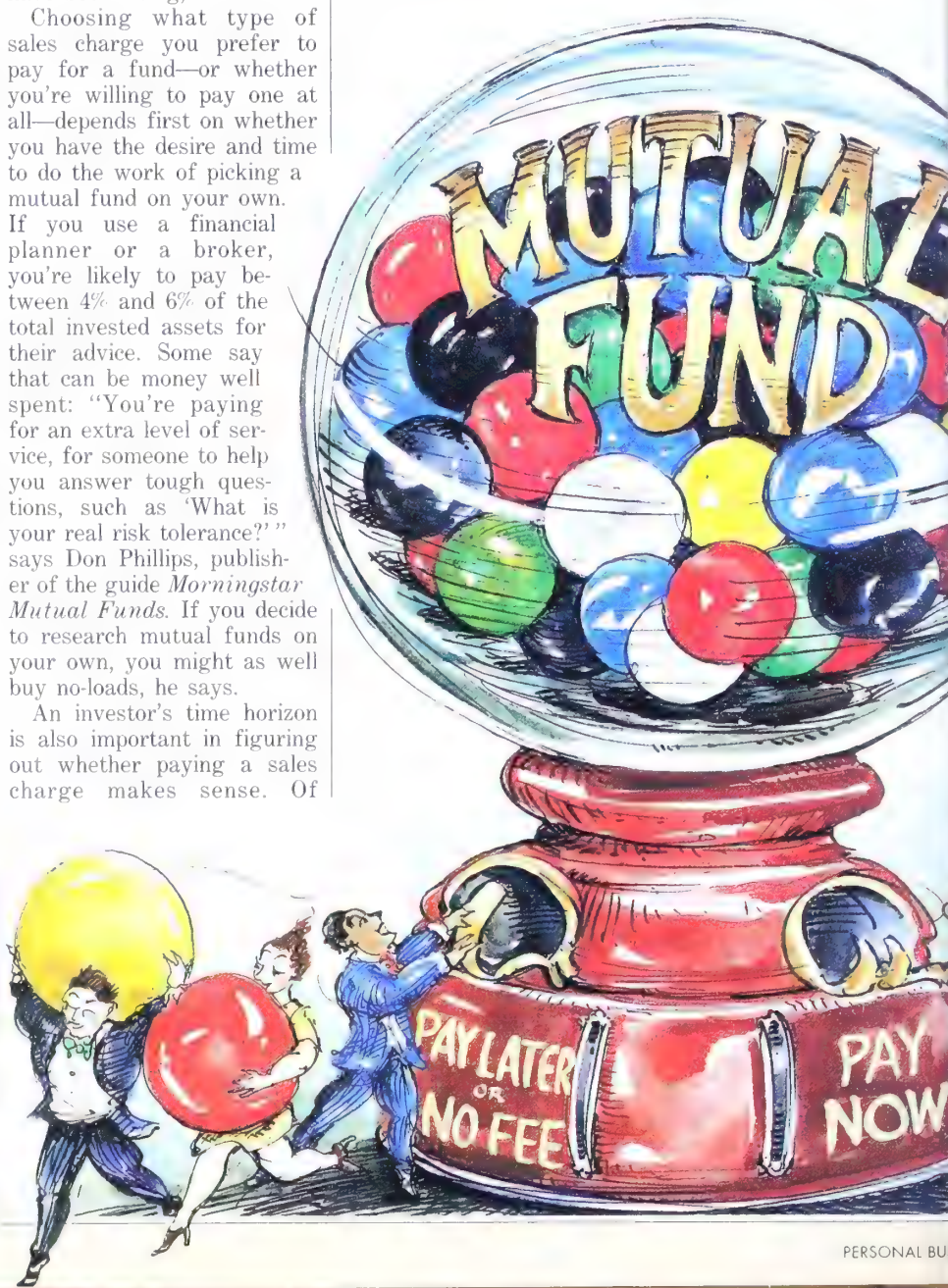
Choosing what type of sales charge you prefer to pay for a fund—or whether you're willing to pay one at all—depends first on whether you have the desire and time to do the work of picking a mutual fund on your own. If you use a financial planner or a broker, you're likely to pay between 4% and 6% of the total invested assets for their advice. Some say that can be money well spent: "You're paying for an extra level of service, for someone to help you answer tough questions, such as 'What is your real risk tolerance?'" says Don Phillips, publisher of the guide *Morningstar Mutual Funds*. If you decide to research mutual funds on your own, you might as well buy no-loads, he says.

An investor's time horizon is also important in figuring out whether paying a sales charge makes sense. Of

course, if you pay a large load and stay in a fund only a year, the load will represent a bigger part of your return than it would if it were spread out over a greater number of years. "If it's a period shorter than five years, I'd pay atten-

tion to the sales charge," says A. Michael Lipper of Lipper Analytical Services. "If beyond five years, I would look at it but not be terribly influenced."

A look at the load-adjusted performance of front-end-



THE DIFFERENCE A SALES CHARGE CAN MAKE

Sales charges take a big bite out of short-term profits, but they have a far more muted effect in the long run

STOCK FUNDS

Fund name	Sales charge	1-yr. total return		5-yr. total return	
		Before load	After load	Before load	After load
DOMINION OPPORTUNITY A	5.50%	29.35%	22.24%	—	—
LAWARE FUND	5.75	26.14	18.88	11.77%	10.45%
ION VANCE FUND	4.75	22.28	16.47	9.22	8.16
EMERGING GROWTH	4.75	20.34	14.63	9.62	8.56
MANAGED INVESTMENT	5.00	19.71	13.72	11.26	10.12

BOND FUNDS

Fund name	Sales charge	1-yr. total return		5-yr. total return	
		Before load	After load	Before load	After load
DEAN WITTER HIGH-YIELD SECURITIES	5.50%	36.89%	29.36%	2.07%	0.92%
NATIONAL BOND	4.75	34.88	28.47	7.16	6.12
TNE GOVT. SECURITIES	4.50	18.78	13.43	9.54	8.54
AMERICAN CAPITAL GOVT. TARGET '97	3.00	18.75	15.19	—	—
HEARTLAND U.S. GOVT.	4.50	18.58	13.25	10.62	9.61

DATA: MORNINGSTAR INC

no-load funds shows no funds with a definite in the performance der- in the aggressive growth yory, the top-performing for the year ending July as a no-load, the tiny \$5 on American Heritage—even with its mammoth expense ratio. The top funds, before adding in charges, include a no-a fund with a 1% back-load, and a fund with a front-end load. Adjusted load, however, the top include two no-loads and ck-end-load fund.

re preponderance of no-funds among the top per- is even more notice- in bond funds. The top n funds in the govern- -bond category, based on ear total returns, are all ad funds. Before factor- a load, three load funds e it into the top ten. But a you adjust for the

loads, they all take a big dive in the rankings.

Take the TNE Government Securities fund, for example. Its 18.78% total return vaulted it into the top ten performing government-bond funds based on one-year returns. Factor in the 4.5% load, however, and it slips to No. 52, with a 13.43% total return.

If you rely on mutual funds for income and you find a bond fund you like that has a load, choose a front-end load over a 12b-1 fee, recommends Phillips. You'll have a fatter income stream because front-end funds have lower expenses, and expenses come out of that income stream.

DIRECT HIT. Many people who are willing to pay a load—but who shy away from paying 5% or so up front—find the pay-as-you-go option appealing. But the fees have critics: "My problem with 12b-1 fees is that they can put pressure on the manager to boost yield and increase the risk," says Phillips. Unlike front-end sales charges, which come directly out of invested assets, 12b-1 fees take a big bite out of yield, since they come out of total return.

In the past, fund companies have charged as much as 1.25% in annual 12b-1 fees. That could make a 12b-1 fund an expensive proposition for a longtime investor. Recently, however, the Securities & Exchange Commission set a

0.75% cap on 12b-1 fees, effective next July. A new 0.25% service fee brings the actual cap up to 1%. Total sales charges are capped at 6.25% for a fund that charges the service fee and at 7.25% for those that don't. For long-term investors, that makes the choice between a front-end load or the pay-as-you-go option more or less of a moot point, says Phillips. Some funds have created new classes of shares to switch their existing shareholders into once the 12b-1 fee roughly equals the front-end load of-

It's getting tougher to figure how charges will affect your return

ferred on the "sister" fund.

A hypothetical example shows how pay-as-you-go plans start off with an edge over front-end-load funds but lose that edge over time. Consider two funds, each with similar objectives, portfolios, and performance. One fund has a 5.75% front-end load. The other has a 12b-1 fee of 0.75% and a back-end load that starts at 3% and declines by 1% every two years.

Say you invested \$2,000 in the front-end fund. The fund's 5.75% load would take a \$115 bite, leaving you with \$1,885

working for you. An investor in the 12b-1 fund puts the entire \$2,000 to work.

Assuming a 10% return, the front-end-load investor would have \$2,073.50 after one year in the fund. Investors in the 12b-1 plan would have seen their \$2,000 grow to \$2,183.68 after year one. But what if the investor in the 12b-1 fund had to cash out after a year? The 3% back-end load is levied on the original \$2,000 investment, leaving \$2,124—still more than the investor in the front-end load.

If the funds continue to earn 10% a year, the hypothetical 12b-1 fund outperforms the front-end-load fund for about eight years. After that, the front-end-load fund takes the lead, with \$4,889.20 in assets after 10 years. The 12b-1 investor has \$4,815.20.

For those with large sums to invest, front-end loads may have an edge over 12b-1 plans with back-end loads. Front-end loads ratchet down on bigger investments, whereas back-end loads make no such accommodations.

A fund's fee schedule shouldn't be your first stop. Spend some time figuring out the type of fund you want and then examine its portfolio and performance. If, after that, you don't like the fee choices on a particular fund, well, there are still thousands of other funds to choose from.

Suzanne Woolley



Exercise

GETTING FIT ONE STEP AT A TIME

Most inventors treat their new products like children to be babied. But Ray Irwin wants you to step all over his. Irwin, chief financial officer of Atlanta-based Sports Step and a co-owner of the Sportslife chain of health clubs, claims paternity for a lightweight, adjustable platform that has fostered a craze in indoor exercise: step aerobics.

Stepping, in which exercisers step on and off a low platform while making vigorous arm movements, offers an effective cardiovascular workout with a lower risk of injury and joint stress than high-impact aerobics. It's taught at most major health clubs, and since the only equipment you



need is a pair of sneakers and a stepper, you can do it almost anywhere. Among Sports Step's products are The Step II (\$59.95), a popular home model, and The Step XT (\$79.95), whose sleek design is suitable for travel. Both come with instructional videos.

There are a few stepping dos and don'ts. Knees should not bend more than 90 degrees. The foot should be placed in the center of the

platform with each step. Heels should not hang off the platform. Experts advise against using handheld weights. And, as with any hard exercise, you should warm up first.

What's the big deal about stepping? Fitness experts contend that it combines the best of aerobic and calisthenic exercise, working out the heart and lungs while promoting coordination and muscle tone. A

1990 San Diego State University study found that step aerobics provides the benefit of a 7.5-mile-per-hour run with the low impact of a 3-mile-per-hour walk.

IF THE SHOE FITS. The right shoes are important for step aerobics. They should offer good forefoot flexibility, provide adequate heel lift, accommodate stress on the Achilles' tendons and calves. Cross-training and aerobic shoes are acceptable because they offer superior cushioning and stability. Reebok International, which markets a Super, and Ryka, which markets women's athletic shoes, both sell shoes specifically marketed for stepping.

The usual rash of celebrity exercise videos has followed the stepping craze. You can step along with Cher, Kathy Smith, and, of course, Jane Fonda. Step aerobics can give you a movie star's body overnight. But steppers are fun, relatively cheap, and a lot more compact than most home gyms. *Jane Toot*

For many philanthropically minded individuals, a private foundation is a great way to give. It lets them set aside a chunk of money that grows tax-free, take a tax deduction in the same year they make a donation, and dole out the assets over time to their charities of choice.

The trouble with such foundations is that they're complicated and time-consuming to set up and administer. "A private foundation can cost thousands and require a lot of paperwork," says Steven Thorne, an estate planner at the Arthur Andersen accounting firm in Chicago. "You need at least \$50,000 to make a foundation worthwhile."

But if you don't have that kind of dough—or don't want the bookkeeping hassles—Fidelity Investments is offering a simple alterna-

Smart Money

FOR THE CHARITY-MINDED AND PAPERWORK-SHY

tive: its new Charitable Gift Fund. You give at least \$10,000 to start and at least \$2,500 for future donations to any of three pools of mutual funds: growth, growth and income, and income. As

with a foundation, you get the tax deduction the year you donate the money without having to distribute it at that time. The money is reinvested and grows tax-free.

A private foundation must give out 5% of its stash each year, while the gift fund need give out nothing. Your whole donation can be paid out years down the road to any number of nonprofit tax-exempt organizations.

Fidelity also gives you a slightly better tax break. Since the gift fund is considered a public charity, donors can deduct 50% for cash and 30% for appreci-

ated stock. With a private foundation, the tax deductions are 30% and 20%, respectively. And foundations pay a federal excise tax of 1% or 2%; the fund doesn't. **QUASI-RICH.** There are a few strings. Fidelity trusts must approve your charities, and there's an annual managers' fee of 1% to 2% of the fund. "I don't see it appealing to the wealthiest people," says Laurence Keiser, partner at Greenfield Eisenberg Stein & Senior in New York. "For the middle wealthy someone with \$1 million to \$10 million, it may make sense for someone who can't afford their own foundation but is significantly charitable."

So far, the fund has drawn \$10.2 million from 141 individual and corporate donors, says Executive Director Mimi Jaffee. Of this, \$1.4 million has been paid out to more than 300 charities since November, 1991. And, says Jaffee, the fund hasn't suffered from the wounded economy. *Pam Blum*

HOW CHARITABLE INSTRUMENTS COMPARE

FIDELITY GIFT FUND	PRIVATE FOUNDATION
Annual expenses of 1%-2% of gift assets	Startup and legal costs in the thousands
No excise taxes	1% or 2% federal excise tax
No minimum distribution requirement	Must distribute 5% of assets annually or pay taxes on undistributed amount
Some control over choice of beneficiary	Total control over choice of beneficiary

DATA: FIDELITY INVESTMENTS, BW



The Business Week Financial Reports.

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Global Finance: Closing date, Aug. 24. Issue date, Sept. 28.

3rd Quarter Mutual Funds Update: Closing date, Sept. 7. Issue date, Oct. 12.

Corporate Finance Report: Closing date, Sept. 28. Issue date, Nov. 2.

4th Quarter Mutual Funds Update: Closing date, Nov. 23. Issue date, Dec. 28.

Yearend Investment Outlook: Closing date, Nov. 23. Issue date, Dec. 28.

For more information, contact Peter J. Callahan, Financial Market Manager, at (212) 512-3579, or your Business Week account manager.

BusinessWeek
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Travel

HOUSTON: BEYOND THE ASTRODOME

Civic boosters once proclaimed the Houston Astrodome the Eighth Wonder of the World. Beginning Aug. 17, that's where Republicans and their camp followers will come to roost. But even enthusiastic conventioners may want to slip out for a while. The city offers a rich gumbo of attractions—not all of them likely to make the guidebooks.

Far more wondrous than the Astrodome is the Beer Can House. This magical dwelling was clad in cascading veils of beer cans by upholsterer John Milkovisch, whose widow still lives there. In a breeze, it sings like a wind chime (222 Malone Dr.).

Right around the corner is President Bush's favorite barbecue joint, Otto's (5502 Memorial Dr., 713 864-2573). Look over the mini-

museum of Bushiana, but skip the middling barbecue and try, instead, nearby Roznovsky's, where you can have big, juicy burgers and icy longnecks in a setting out of rural Texas (5719 Feagan, 864-1492).

Work it off with a jog down the road at Memorial Park, where Bush hits the track when he's in town. To avoid heatstroke, do as the natives do: Run at dawn or dusk.

GOODE GRUB. Hungry again? Take a crash course in regional fare at the eateries created by Jim Goode, the pop genius of Texas cuisine. You can't go wrong at Goode's neon-lit taco joint (4902 Kirby, 520-9153), or his barbecue place (5109 Kirby, 522-2530). Best of all may be the mesquite-grilled shrimp or catfish with red and green salsas at Goode Company Seafood (2621 Westpark, 523-7154).

Houstonians are passionate about their Mexican food, so get serious at Irma's, an obscure warehouse-district spot where the Tex-Mex plate lunches have genuine soul, the proprietress is your new best friend, and the place is crammed with just about every trinket she ever owned (22 N. Chenevert, 222-0767). But if you're bent on a margarita, let it be the stellar "Top Shelf" version at Pico's, one of the few places that still uses a cocktail shaker (4527 Lomitas, 942-9955).

Let others battle for reservations at upscale shrines such as Tony's



AT THE BEER CAN HOUSE, VEILS OF CASCADING BEER CANS WIND CHIME LIKE A WIND CHIME. GOODE COMPANY (LEFT) OFFERS A CRASH COURSE IN REGIONAL FARE.

and Cafe Annie. You can get a taste of the modern regional sensibility at such lower-stress spots as Sierra, where chef Robert McGrath works in a southwestern mode (4704 Montrose, 942-7757), or at Cité Grill, where French-born Hervé Glin gives southwestern ideas his own idiosyncratic spin (5860 Westheimer, 783-1566). At Churrasco's, the innovative South American menu gives Houstonians the most bang for their restaurant buck (2055 Westheimer, 527-8300).

SOUL FOOD. Should the hurlyburly of the convention pall, seek refuge in the cool oasis of the Menil Collection, a private museum housing the ancient, tribal, and modern works assembled by art patron Dominique de Menil (1515 Sul Ross, 525-9400). Also on the park-like grounds: the Rothko Chapel, with powerful canvases by the late abstract expressionist Mark Rothko.

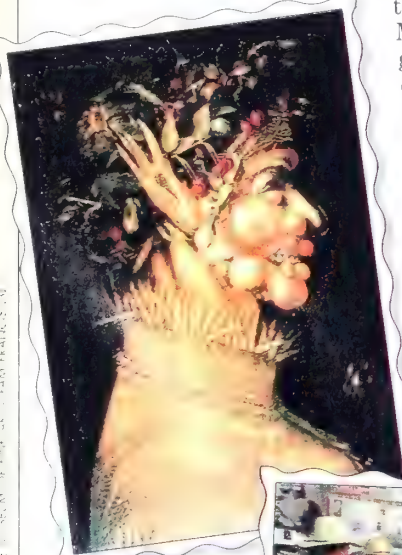
At the Museum of Fine Arts, check out Leonardo da Vinci's celebratory anatomical drawings, on loan from Queen Elizabeth II, or "The Age of the Marvelous," which includes a fantastic re-creation of a "Wonder Room" from a Renaissance castle (1001 Bissonnet, 7300). Bursting with natural and ethnographic oddities, the museum evokes the strangeness of the universe as effectively as a political convention does.

Alison O.

Worth Noting

■ **ASK LEW.** In *Low Altitude Answers Almost All Your Questions About Money* (McGraw-Hill; \$19.95), the personal-finance guru covers cradle-to-grave planning in Q&A format. The book will hit stores in September.

■ **KID KULTURE.** *Behind the Scenes*, a 10-part PBS series will introduce children to the fine arts, from music and dance to painting and sculpture. The first episode will air nationwide on Sept. 8, 8:30 p.m., EST.



GIUSEPPE ARCIMBOLDI'S 'ALLERGY OF SUMMER' IS AT THE MUSEUM OF FINE ARTS (ABOVE). PATRONS SAMPLE TEX-MEX SOUL FOOD AT IRMA'S



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THERE IS NO SECURITY WITHOUT CHANGE



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The latter survive and thrive. The former become... lunch.

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And there's a lot of security to be found in \$12 billion.



You've finally got it made: You're a CEO or plant manager, a partner or director. Or you've landed your biggest contract yet. Suddenly, somebody slaps your business with a liability suit. However remote your involvement, your family could face personal bankruptcy, as some partners did at the now defunct accounting firm, Laventhol & Horwath.

To keep such nightmares from becoming reality, financial advisers are increasingly suggesting that executives and professionals take a bold new precaution: an asset protection trust (APT) to keep part of your money on a foreign island. That may sound a lot like using a tax haven to hide income from the Internal Revenue Service. But it's "very different from the old days of 10 or 15 years ago," says Alan Klein, an Arthur Andersen partner in Dallas. An APT won't save you a cent in income taxes, and you disclose it to the IRS. Its purpose is solely to put "layers of insulation" between your family and "the litigation explosion."

In its simplest form, the APT is a bank trust account in a jurisdiction that doesn't honor judgments by U.S. courts. So if you lose back home, your opponent "would have to sue you all over again" under the island's law, explains E. Lisk Wyckoff Jr., a partner in the New York law firm of Kelley Drye & Warren.

Especially where local law tilts toward trusts, the prospect of paying foreign lawyers for years more of litigation can make an opponent back off. "The idea is to change the psychology, so the defendant can be offensive in the defense," says Barry Engel of Engel & Rudman, an Englewood (Colo.) law firm specializing in APTs.

LAP OF LIABILITY. Still, no one can be sure how a case will turn out. So some advisers suggest arranging a back-up—a second trust on another island. If your opponent shows signs of winning, "you pick up the phone and do a wire transfer to a new country," suggests John Erb, prin-

Planning

ENDANGERED ASSETS? TRY AN ISLAND STRONGBOX

cipal in De Teffe Capital Management in Alexandria, Va. "There's no judgment against you there, and they'd have to start the process all over."

If your assets are in the millions, even the prospect of fighting a few more years on

claim, and all cases turned out "substantially better than if the client had been sitting in a corner with all his money in his lap."

Who should consider an APT? Accountants, lawyers, architects, surgeons, and any others exposed to professional malpractice suits are prime candidates, Erb says. If

pany's insurance covera

When is an APT worth while? That depends partly whether your wealth is enough to tempt what Klein of Dallas calls "would-be creditors lurking around looking for deep pockets." And it depends on whether it's affordable in relation to your assets. As a rule of thumb, you should have a net worth of around \$500,000 and expect a setup charge of \$15,000 to \$50,000, or a small percentage of the assets, and a yearly maintenance fee around \$2,000.

An APT may allow you to drop or reduce liability-insurance premiums. And the package often includes a family limited partnership, according to Alan Klein, which lets you keep your assets comfortably close to home "until a predator creditor is breathing down your neck and you transfer the funds up to the trust."

ISLAND-HOPPING. Above all, advisers agree that any APT should be part of your overall estate planning and that you should begin the process pronto. The trust must be opened before you get sued. And the longer your APT exists before any suit surfaces, the more likely it will stand up against the argument that you tried to defraud a creditor. For starters, ask your regular attorney to bring in a stateside adviser with APT skills. As to an offshore trustee, Wyckoff favors well-known foreign banks for their soundness and long experience in offshore trusts for affluent Europeans.

As APTs become more popular, more islands are reexamining their trust laws to draw business. Among the favorites are Bermuda, Gibraltar, Trinidad, the Bahamas, the Caymans, the Channel Islands, the Isle of Man, the Turks & Caicos, and the Cook Islands, near New Zealand.

Since you should visit your trustee at least once, you might prefer a place that's warm and close. But remember, you're not there for the beach. The idea is to keep your treasure chest safe from the sharks. *Dick Janssen*



ASSET PROTECTION TRUST ACCOUNTS ARE BEYOND THE JURISDICTION OF U.S. COURTS

foreign soil may not deter your creditor. Should you be the first to tire of the strain and expense, your APT can at least make for a favorable compromise. Of the 500 or so APTs his firm has arranged since 1987, "about two dozen have been tested" in suits, says Engel. Settlements averaged 15% of the original

you're an accountant in a partnership, for instance, you could be wiped out by a botched audit "by a partner you never met in another office." While corporations afford more protection than partnerships, Erb says directors and officers can become targets of class-action claims that run far beyond their com-

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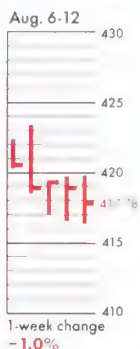
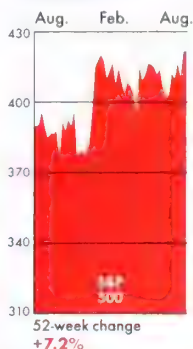
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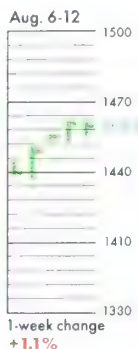
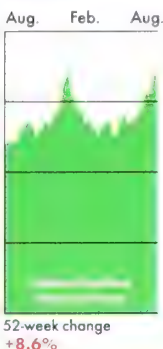
MARKET COMMENTARY

and bulls run rampant. Good in the inflation front and per- signs of economic weakness investors rushing into the market. The timing couldn't been better. The U.S. Treas- in the midst of its quarterly ing auction and had plenty ds for sale. The yield on the ir Treasury bond hit a five- w. Stocks, though, drifted n sluggish trading. Foreign s were hit harder. Japanese took another dive, driving kei below 15,000. London lost 3.7%.

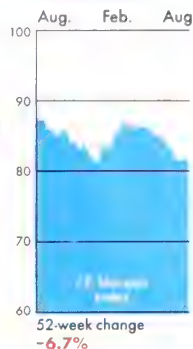
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

	Latest	% change Week	% change 52-week
ONES INDUSTRIALS	3320.8	-1.3	10.5
OMPANIES (Russell 1000)	221.1	-1.0	8.2
OMPANIES (Russell 2000)	192.4	-1.1	10.0
OMPANIES (Russell 3000)	235.0	-1.0	8.3

	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	2303.1	-3.7	-11.7
(NIKKEI INDEX)	14,773.8	-7.6	-36.8
TO (TSE COMPOSITE)	3377.8	-0.8	-4.6

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.19%	3.23%	5.44%
30-YEAR TREASURY BOND YIELD	7.33%	7.43%	8.07%
S&P 500 DIVIDEND YIELD	2.94%	2.90%	3.1%
S&P 500 PRICE/EARNINGS RATIO	24.5	24.6	19.9

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	411.4	411.2	Positive
Stocks above 26-week moving average	47.4%	49.8%	Neutral
Speculative sentiment: Put/call ratio	0.51	0.36	Positive
Insider sentiment: Vickers sell/buy ratio	1.71	1.81	Positive

INDUSTRY GROUPS

	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
REBUILDING	10.6	47.9	PHM	20.5	90.7	25 3/4
AND GAS DRILLING	9.2	-9.9	ROWAN	10.0	-19.1	6 7/8
WELL EQUIPMENT SERVICES	9.0	-6.3	HALLIBURTON	21.0	-13.7	32 3/8
SPECIALTY RETAILERS	7.0	21.1	LOWE'S	19.6	48.8	23 5/8
S	6.8	67.8	HASBRO	13.9	67.6	30 3/4
	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
TRUMENTATION	-10.6	11.2	HEWLETT-PACKARD	-11.8	13.1	60 1/2
COMPUTER SYSTEMS	-8.4	-14.5	WANG LABORATORIES	-34.6	-29.2	2 1/8
INES	-7.6	-18.1	DELTA AIR LINES	-8.8	-30.9	50 1/2
OMOBILES	-7.5	18.1	FORD MOTOR	-10.1	32.7	41 1/8
ER CONTAINERS	-7.3	10.0	STONE CONTAINER	-27.4	-14.6	16 7/8

MUTUAL FUNDS

	%	LAGGARDS	%
4-week total return		Four-week total return	
ELITY SELECT ENERGY SERVICE	9.6	DFA JAPANESE SMALL COMPANY	-16.0
ER SMALL CAPITALIZATION	7.2	CAPSTONE NIKKO JAPAN	-12.0
TEL	6.8	T. ROWE PRICE JAPAN	-11.7
4-week total return		52-week total return	
MARK	50.6	LEXINGTON STRATEGIC INVESTMENTS	-44.7
ELITY SELECT SAVINGS & LOAN	48.6	UNITED SERVICES GOLD SHARES	-37.1
ELITY SELECT REGIONAL BANKS	44.8	DFA JAPANESE SMALL COMPANY	-32.4

RELATIVE PORTFOLIOS

	Treasury bonds	U. S. stocks	Money market fund	Foreign stocks	Gold
Amounts sent the present of \$10,000 one year ago	\$12,056	\$11,125	\$10,366	\$9,883	\$9,793
Changes indicate pay total returns	+1.34%	-1.29%	+0.06%	-4.11%	-1.08%

on this page are as of market close Wednesday, August 12, 1992, unless otherwise indicated. Groups include S&P 500 companies only; performance and share prices are as of market close.

August 11. Mutual fund returns are as of August 7. Relative portfolios are valued as of August 11. A more detailed explanation of this page is available on request.

GETTING EXTRA MILEAGE FROM BRITISH AIR

The interests of the airline industry and the flying public don't always dovetail, but British Airways' proposal to buy 44% of USAir for \$750 million could be one of those happy conjunctions on both sides of the Atlantic (page 54). Much depends on how adept the Bush Administration proves to be at tackling some of the important issues the deal raises.

The transaction has obvious pluses for the two airlines. Ailing USAir desperately needs an injection of funds, while British Airways gains a feeder network in the world's richest market. For American consumers, the transaction provides a fourth major player in the U.S.—one whose heft and skill can bring new competitive juice to a market dominated by American, United, and Delta.

The BA-USAir deal has the potential to bring far broader benefits, however. American, United, and Delta have been arguing—with much justification—that U.S. negotiators should insist on concessions from the British for U.S. carriers, including more liberal operating rights in Britain and the right to fly on to cities on the Continent.

But expanded rights in Britain itself are not enough. When the deregulation of Europe's airline industry begins in January, 1993, British Air will become a European airline. So while the U.S. pursues reciprocity in London, it should seek talks with the European Community, which increasingly will represent its member countries on such issues.

Washington should give the BA-USAir marriage thumbs up. But it should do so in a way that signals U.S. determination to participate in the increasingly open competition in Europe. If Europe opened fare structures and landing rights to all comers, their state-owned airlines would have to be run like efficient businesses instead of subsidized monopolies. And that would benefit airline customers around the world.

AN ECONOMIC AGENDA FOR THE GOP

The Republican Convention that begins on Aug. 17 once figured to be a coronation for George Bush, but now it is looking more like a free-fire zone. Running 20 points behind Governor Bill Clinton in the polls, Bush is now being pounded by the conservative wing of his party as well.

The latest salvo comes from supply sider Jack Kemp, who sits on Bush's Cabinet as Secretary of Housing & Urban Development. In a well-publicized memo to the Bush campaign, Kemp and six prominent congressional Republicans called on the President to repudiate his tax increase of 1990. Don't worry so much about balancing the budget, they say, the best way to boost growth is to cut everyone's taxes.

To a beleaguered Bush, the Kemp plan might seem tempting: a bold, politically popular way to recapture the conservative support that threatens to slip from Bush's grasp.

Moreover, a massive tax cut would jar the economy out of malaise, at least for a while, by putting more money in consumers' pockets, just as the Reagan tax cuts helped the recovery from the recession of 1981-82.

But any attempt to recreate the boom years of the 1980s by cloning the 1981 supply-side tax cut is likely to backfire, raising inflationary expectations and pushing up long-term interest rates. The Reagan 1981 cuts, coupled with congressional overspending, helped create \$2.3 trillion in cumulative budget deficits over the ensuing decade. The U.S. economy, already weakened by excessive domestic and international debt, cannot afford another round of tax cuts right now.

It is imperative for President Bush to resist the supply siders' latest siren call and put together for his second term a coherent economic policy that focuses on cutting the deficit while encouraging long-run investment and growth. If the GOP wants a bold conservative tax policy to stimulate saving and investment, it could offer dramatic cuts in personal and corporate income taxes and in the capital-gains tax. But to be responsible, those cuts ought to be offset by increases in taxes on consumer spending, such as the gasoline tax, and by an assault on the growth of spending for entitlements. Only by acknowledging our economic problems and tackling them head-on does President Bush have much hope of reelection—and of leading the nation in a second term.

CONGRESS SHOULD O.K. THE FREE-TRADE PACT

The U.S., Canada, and Mexico have hammered out a historic North American Free Trade Agreement that would produce a \$6 trillion market, if approved by the legislatures of the three nations (page 30). For the U.S., the agreement would gradually eliminate trade barriers with our third-largest and fastest-growing trading partner, increasing trade and creating hundreds of thousands of new jobs in the export sector. And those new jobs are the reason why the U.S. Congress should approve the pact.

Advocates of the plan envisage such a boom in U.S. exports both because Mexico would grow faster and because there is a tariff gap between the two countries. Mexican tariffs on imports from the U.S. average 10%, while U.S. tariffs on Mexican goods average just under 4%. All these tariffs would be eliminated over 15 years.

Still, the plan has a downside. Mexico has a per capita income of only \$2,300—vs. \$23,000 in the U.S.—so some relatively low-wage, low-skill jobs are sure to move there. If those jobs figure to be lost anyway—if not to Mexico, to Southeast Asia. Seen that way, the U.S. benefits more if the jobs head south, because 60% of Mexican export earnings are spent on U.S. goods—far higher than other nations.

Of course, that means nothing to the Americans losing jobs, and some retraining must be provided for them. Similarly, both nations must commit to strict environmental rules on both sides of the border. The Bush Administration insists it has both these problems licked. If so, the North American Free Trade Agreement can boost the economies of all three nations.

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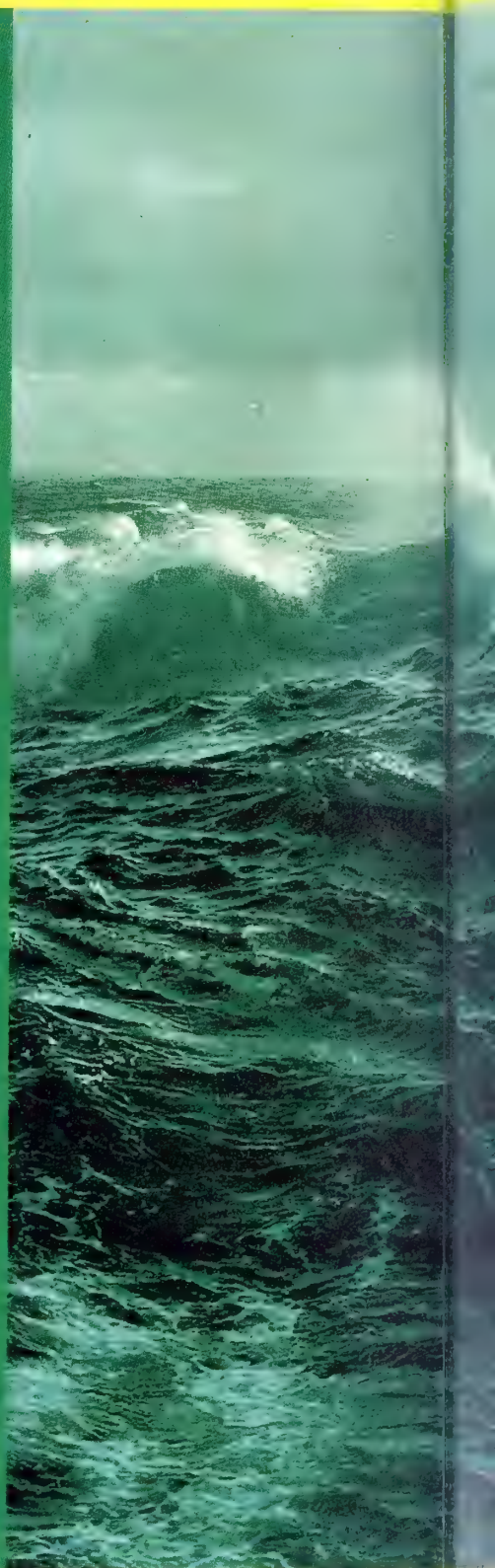
MANAGEMENT'S NEW GURUS

And
What
They're
Telling
Business

PAGE 44



**DIGITAL
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D I G I T A L . T H E O

**ENGINE
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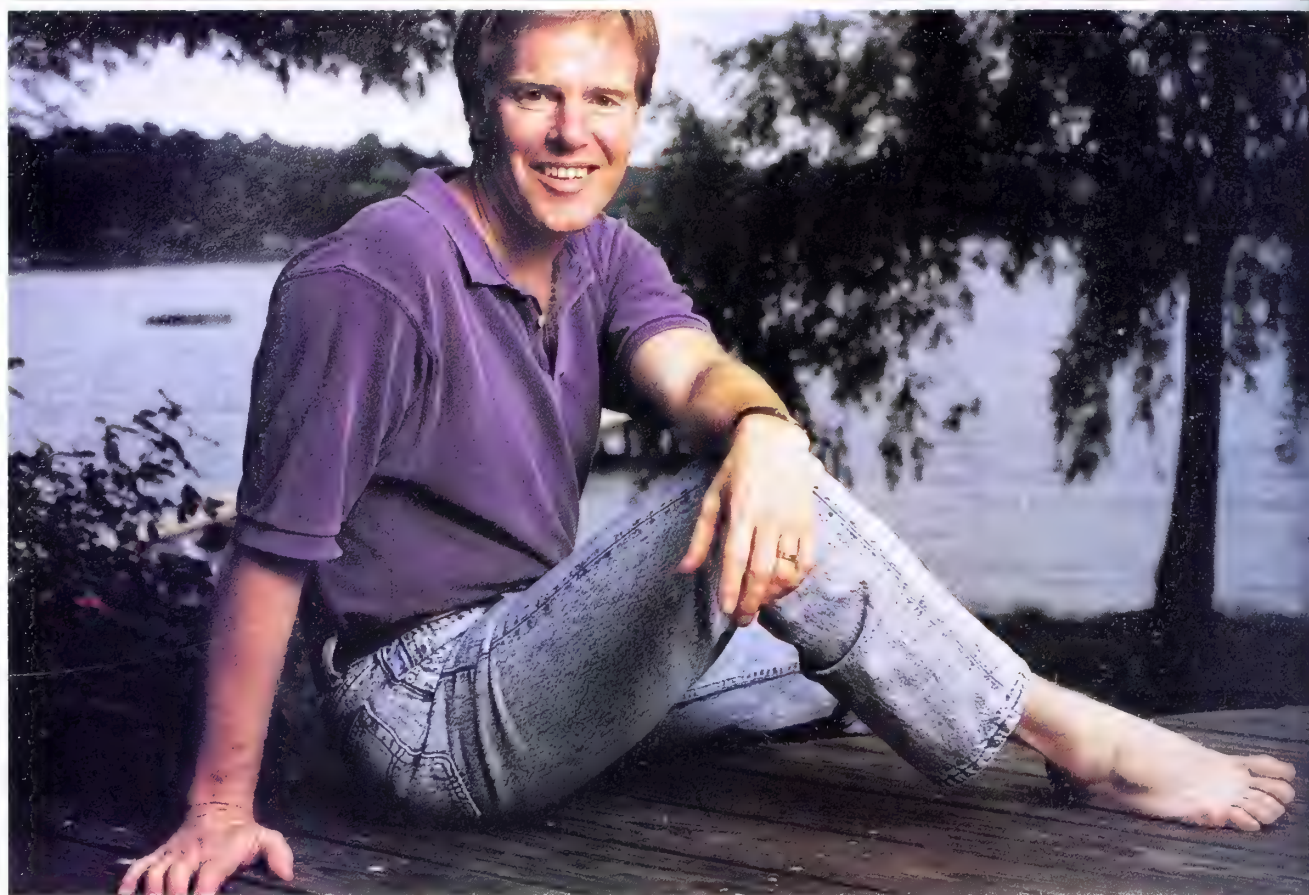
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Cover Story

44 MANAGEMENT'S NEW GURUS

A big crop of new thinkers is coming on strong, each with a batch of new ideas and buzzwords. Clearly, managers are hungry for fresh approaches to global markets: U. S. companies spent \$13.9 billion on outside advice last year. Among the hottest names are Nadler, Senge, Stark, and Hammer. The best of these oracles go way beyond hype, and their influence is growing

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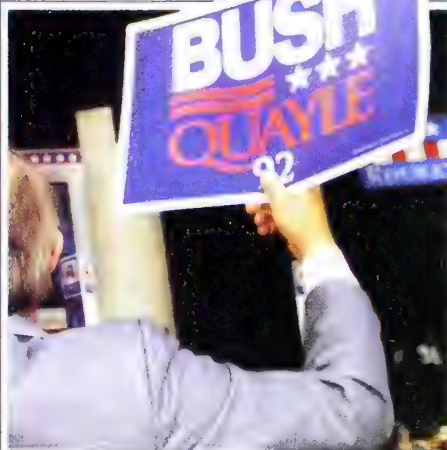
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EMPTY-OFFICE BLUES

Even if the global economy takes off again, vacancies and downward prices will persist

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Global equity offerings—and the huge fees they generate—have investment bankers in a tizzy

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New FDIC rules will give the feds sweeping powers over ailing banks

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Cheap office rents can mean costly delays, evictions, and legal hassles

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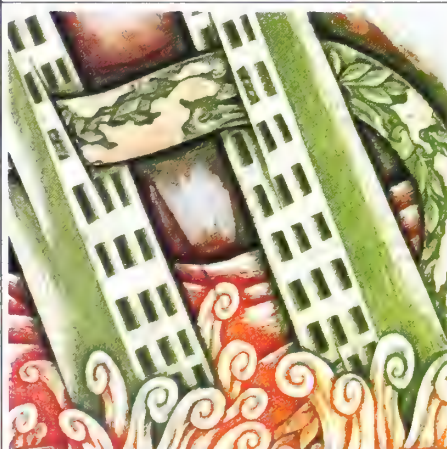
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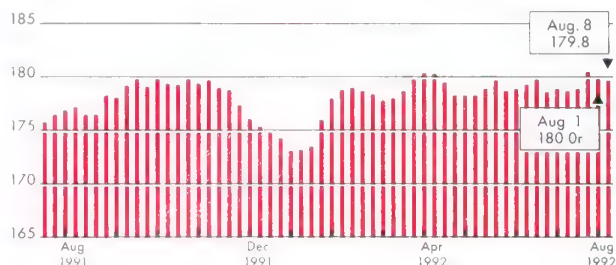
Don't talk the dollar down

BusinessWeek Index

PRODUCTION

Change from last week: 0.1%
Change from last year: 1.4%

1967=100 (four-week moving average)

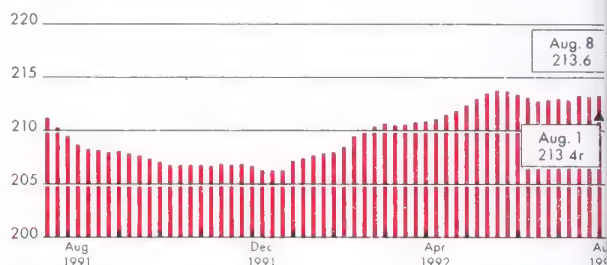


The production index fell slightly during the week ended Aug. 8. Auto and truck production levels were up strongly as plants reopened after a two-week closing. Coal, crude-oil refining, paper, and lumber output and rail-freight traffic also increased. Steel, electric power, and paperboard output declined for the week. Before calculation of the four-week moving average, the index increased to 179.8, from 178.8 in the previous week.

BW production index copyright 1992 by McGraw-Hill Inc.

LEADING

Change from last week: 0.1%
Change from last year: 2.3%



The leading index showed little change during the week ended Aug. 8, as the economy continues to struggle. A steep decline in the growth rate of M2 offset higher stock prices, lower bond yields, and improved growth rates for materials prices and real estate loans. The number of business failures was unchanged from the previous week. Before calculation of the four-week moving average, the index increased slightly to 214.4, from 214.3.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (8/15) thous. of net tons	1,685	1,727#	2.5
AUTOS (8/15) units	110,228	88,928r#	9.5
TRUCKS (8/15) units	78,938	74,542r#	5.5
ELECTRIC POWER (8/15) millions of kilowatt-hours	65,720	63,431#	4.7
CRUDE-OIL REFINING (8/15) thous. of bbl./day	13,871	13,900#	0.6
COAL (8/8) thous. of net tons	18,903#	18,363	-8.2
PAPERBOARD (8/8) thous. of tons	817.2#	836.1r	2.5
PAPER (8/8) thous. of tons	755.0#	744.0r	-0.1
LUMBER (8/8) millions of ft	483.2#	482.2	-4.6
RAIL FREIGHT (8/8) billions of ton-miles	20.5#	20.3	-1.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWP, SFA, Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (8/19)	126	128	137
GERMAN MARK (8/19)	1.46	1.47	1.74
BRITISH POUND (8/19)	1.93	1.92	1.69
FRENCH FRANC (8/19)	4.94	4.97	5.90
CANADIAN DOLLAR (8/19)	1.20	1.19	1.14
SWISS FRANC (8/19)	1.31	1.32	1.52
MEXICAN PESO (8/19)	3,071	3,080	3,039

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars.

PRICES

	Latest week	Week ago	% Change year ago
GOLD (8/19) \$/troy oz.	338.000	346.800	-5.1
STEEL SCRAP (8/18) #1 heavy, \$/ton	88.50	88.50	-5.9
FOODSTUFFS (8/17) index, 1967=100	197.3	198.9	-1.3
COPPER (8/15) c/lb.	116.3	115.6	10.2
ALUMINUM (8/15) c/lb.	60.1	60.5	3.8
WHEAT (8/15) #2 hard, \$/bu	3.20	3.20	2.9
COTTON (8/15) strict low middling 1-1/16 in., c/lb.	58.08	60.27	-10.3

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (8/14) S&P 500	418.75	422.22	
CORPORATE BOND YIELD, Aaa (8/14)	7.93%	7.99%	-0.8
INDUSTRIAL MATERIALS PRICES (8/14)	98.8	99.0	
BUSINESS FAILURES (8/7)	424	424	10
REAL ESTATE LOANS (8/5) billions	\$399.0	\$397.7	
MONEY SUPPLY, M2 (8/3) billions	\$3,411.8	\$3,433.6r	
INITIAL CLAIMS, UNEMPLOYMENT (8/1) thous.	403	469	

Sources: Standard & Poor's, Moodys, Journal of Commerce (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusted data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (July) total index	108.9	108.5r	
CAPACITY UTILIZATION (July)	78.9%	78.7%r	
CONSUMER PRICE INDEX (July)	140.5	140.2	
RETAIL SALES (July) billions	\$159.5	\$158.7r	

Sources: Federal Reserve Board, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (8/3)	\$966.8	\$962.3r	11
BANKS' BUSINESS LOANS (8/5)	277.9	276.5r	-9
FREE RESERVES (8/5)	687	737r	313
NONFINANCIAL COMMERCIAL PAPER (8/5)	139.5	138.8	-3

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	% Change year ago
FEDERAL FUNDS (8/18)	3.26%	3.23%	5.68
PRIME (8/19)	6.00	6.00	8.50
COMMERCIAL PAPER 3-MONTH (8/18)	3.37	3.37	5.64
CERTIFICATES OF DEPOSIT 3-MONTH (8/19)	3.28	3.28	5.62
EURODOLLAR 3-MONTH (8/15)	3.31	3.31	5.61

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value. NA=Not available. r=revised. NM=Not meaningful.



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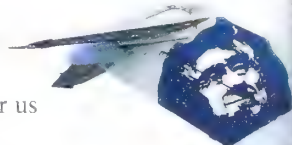
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FIRST, LET'S ABSORB THE IMMIGRANTS WE'VE GOT

How many people can the U.S. accommodate before it finds itself, like China, in a situation where it is forced to try draconian methods to reduce its population? ("The Immigrants," Cover Story, July 13). In California, the population is now over 30 million; 50 million by the year 2000 has been predicted. Half of this growth has been attributed to immigrants. Population growth is the great enemy of the environment (clogged freeways, smoggy skies, inadequate water supplies, etc.).

As the son of immigrant parents, I have hesitated to advocate severe limits on immigration. Now, however, I recognize that what I owe my children outweighs my debt to my father's memory. We must stabilize our own population before opening the gates.

L. E. Sacks
Berkeley, Calif.

The tragedy is that by substantially reducing and enforcing immigration levels we could reduce social tensions and costs, more effectively assimilate the legal immigrants who are here, and begin to address the training, employment, and other issues that affect our own unskilled workers. We might even be more willing as a nation to encourage trade and aid that Third World countries need to offer opportunities to their own nationals.

George B. High
Executive Director
Center for Immigration Studies
Washington

REPETITIVE STRESS DOESN'T END AT THE WORKPLACE

In reference to your article "Repetitive stress: The pain has just begun" (Legal Affairs, July 13), the whole issue of repetitive strain injuries, or RSIs, appears to be far more complex than the legal profession attempts to make it. So many different factors are implicated or intertwined—medical, occupational, avocational, and genetical. Avocational or recreational activities outside of the job

are just as important as vocational factors because RSIs are just as commonly encountered in recreational activities, such as bicycling, gardening, sewing, crocheting, knitting, baking, etc.

According to a recent Mayo Clinic report (June, 1992), one of the most frequently listed occupations of patients with carpal tunnel syndrome (CTS), in Rochester, Minn. (1961 through 1980), is homemaker (302 of 1,016), followed by retired persons. Surprisingly enough, female gender with use of oral contraceptives is reported to be the strongest of risk factors. To make matters worse, heredity or familial cases of CTS are now being reported increasingly.

Thus, the complexity of RSIs dictates a more thorough assessment of each case from the medical, vocational, avocational, and genetical standpoints. Otherwise, ergonomics and workplace modifications may only play a limited role as a preventive measure.

Chansoo Kim, M.D.
Physiatrist
Diplomate, American Board of
Physical Medicine & Rehabilitation
Springfield, Ill.

SMART SELLERS, SAVVY SAMARITANS

I read with great interest "Smart Selling" (Cover Story, Aug. 3). I watched with great anticipation to see W. Edwards Deming's name. But never once was the designer of these ideas mentioned. Do only the Japanese give credit where credit is due? Dr. Deming was teaching these ideas in the 1950s, but only the Japanese were listening. Shame!

Steven F. Marzorati
Rockford, Ill.

As a dedicated customer of Home Depot Inc., I read your cover story with interest. While Home Depot is savvy about its approach to selling to the do-it-yourself market, there is another dimension. Home Depot recognizes that it is an integral part of the greater community and takes that role as "corporate citizen" very seriously. About a year ago, a woman in the community lost her uninsured home and her teenage son to

BUSINESS WEEK
AUGUST 31, 1992 *** 3281
ISSN 0007-7135



Publishing weekly except for one issue in January by McGraw-Hill Inc. Founder: James H. McGraw (1860-1948)
 Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020
 Telephone: (212) 512-2000 Domestic Telex: 127960 International Telex: 232365 Cable: McGraw-Hill New York; TWX: 710-581-4879
 U.S. subscription rate \$44.95 per year; 2 years, \$74.95; 3 years, \$99.95 Single copies, \$2.75 Write for rates in other countries
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European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone: 06285 51311, Telex: 816610
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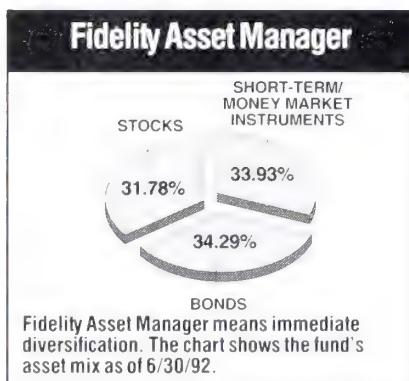
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Readers Report

CORRECTIONS & CLARIFICATION

In "The mommy backlash" (The Workplace, Aug. 10), we should have said that the family leave bill pending in Congress would not apply to the companies that have fewer than 100 employees.

fire. Home Depot responded, along with other concerned residents, by providing thousands of dollars of free materials and supplies to assist in the rebuilding effort. Similarly, earlier this year, Home Depot responded positively when a group, the Nassau Shores Civic Association, sponsored a communitywide graffiti cleanup. Its store in Farmingdale, N.Y., generously donated close to \$700 worth of paint and supplies to the project. Questions asked.

As a civic leader, I am very encouraged to see this type of responsible corporate involvement. As a businessman, I recognize that this kind of corporate culture, coupled with a serious commitment to the customer, will serve business, consumers, and the community well.

Raymond C. Russo
Massapequa, N.Y.

JAPAN'S 'OPEN' CHIP MARKET STILL LOOKS PRETTY SHUT

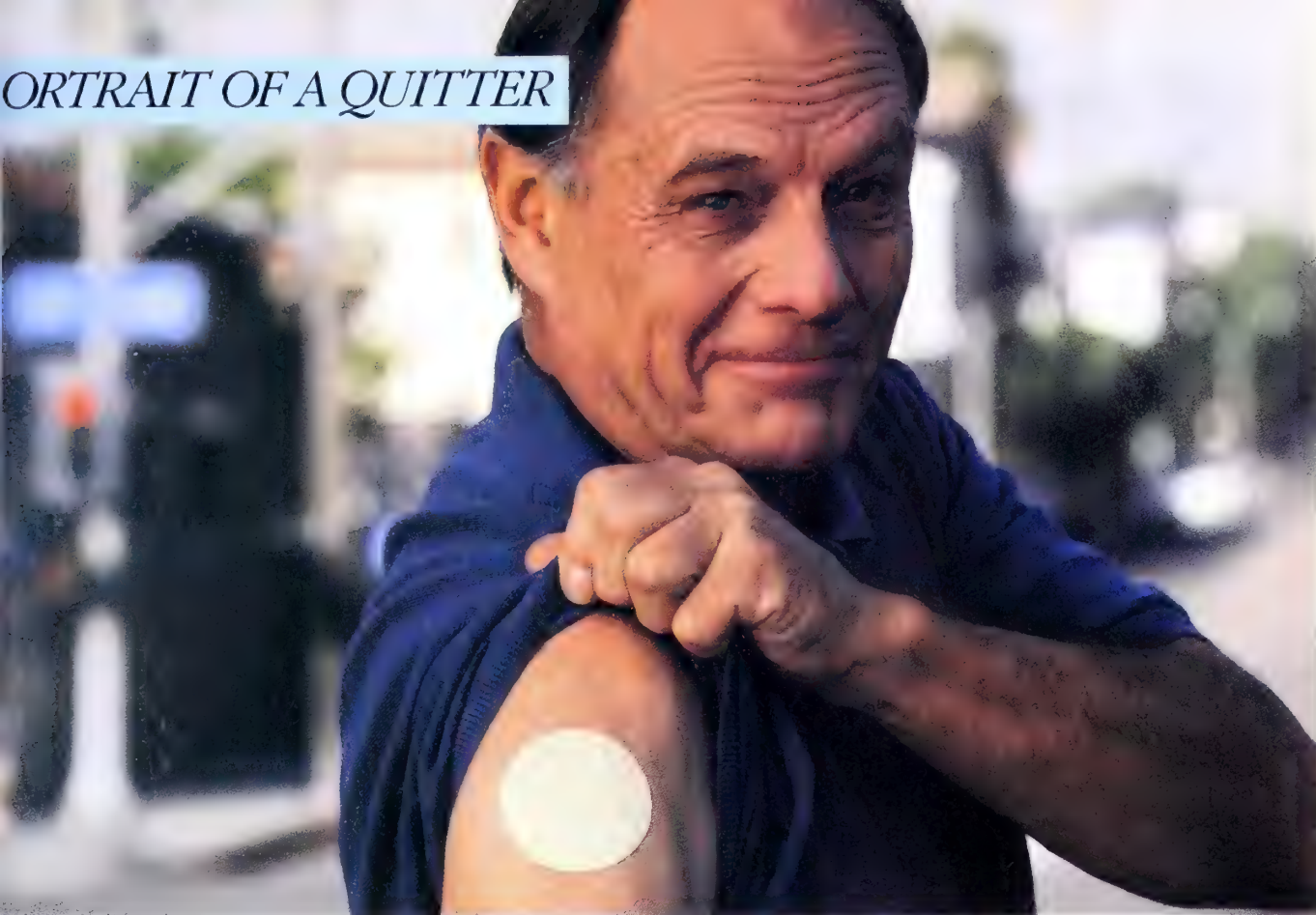
The recent letter from Taro Okabe of the Electronic Industries Association of Japan ("Don't start a chip war in Japan when everyone's cooperating," Readers Report, July 27), claims the Japanese semiconductor market is open to foreign competition. The facts indicate otherwise. For years, the Japanese government overtly maintained a closed market to protect its domestic industry. More recently, informal barriers and *keiretsu* relationships have served to block competition.

U.S. chipmakers outsell their Japanese competitors by more than 2 to 1 outside Japan. However, within Japan the U.S. and all other foreign semiconductor companies have just a little more than 14% market share. This is an open market? We don't want a trade war. We only want Japan to honor the commitment it made in 1986, and again in 1991, to open its market.

A. A. Procast
President
Semiconductor Industry Association
San Jose, Calif.

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N.Y. 10020. Fax: (212) 512-4000. Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

PORTRAIT OF A QUITTER



About six years ago, I decided to stop smoking. So I tried cold turkey. But soon, my wife caught me sneaking cigarettes out the bathroom window.

QUITE FRANKLY, I NEVER THOUGHT I COULD REALLY QUIT SMOKING.

Then my doctor suggested Habitrol™. Habitrol is a skin patch, available only by prescription to help relieve nicotine cravings. When used as part of a comprehensive behavioral smoking cessation program, it's been clinically proven to increase the chances of quitting in the critical first three months. That's when nicotine withdrawal symptoms force many people back to smoking.

As part of my smoking cessation program, I attended a support group my doctor recommended. He also gave me a free support kit with tips on getting through the rough times. And an audio tape for relaxation and motivation.

Since Habitrol contains nicotine, do **NOT** smoke or use other nicotine-containing products while receiving Habitrol treatment. If you're pregnant or nursing, or have heart disease, be sure to first find out from your doctor all the ways you can stop smoking. If you're taking a prescription medicine or are under doctor's care, talk with your doctor about the potential risks of Habitrol. Habitrol shouldn't be used for more than three months.

If you're really determined to quit, **ask your doctor** if Habitrol as part of a comprehensive smoking cessation program is right for you. **Or call 1-800-YES-U-CAN**, for a brochure today.

If you're tired of quitting and failing, Habitrol can help you with the nicotine craving and this can help you in your program to quit smoking. After that, it's up to you.

IF YOU'VE GOT THE WILL, NOW YOU CAN HAVE THE POWER.

Habitrol™
(nicotine
transdermal
system)

Habitrol™ (nicotine transdermal system)

Systemic delivery of 21, 14, or 7 mg/day over 24 hours

BRIEF SUMMARY. FOR FULL PRESCRIBING INFORMATION SEE PACKAGE INSERT.

INDICATIONS AND USAGE

The withdrawal symptoms. Habitrol treatment should be used as a part of a comprehensive smoking cessation program.

The use of Habitrol systems for longer than 3 months has not been studied.

CONTRAINDICATIONS

WARNINGS

Nicotine from any source can be toxic and addictive. Smoking causes lung cancer, heart disease, emphysema, and may adversely affect the fetus and the pregnant woman. For any smoker, with or without nicotine replacement therapy, the risk of nicotine replacement in a smoking cessation program should be weighed against the hazard of continued smoking while using Habitrol systems, and the likelihood of achieving cessation of smoking without nicotine replacement.

Pregnancy Warning

Tobacco smoke, which has been shown to be harmful to the fetus, contains nicotine, hydrogen cyanide, and carbon monoxide. Nicotine has been shown in animal studies to cause fetal harm. It is therefore presumed that Habitrol treatment may cause fetal harm when administered to a pregnant woman. The effect of nicotine delivered by Habitrol systems has not been examined in pregnancy rats. PRECAUTIONS: Other Effects: Therefore, pregnant smokers should be encouraged to abstain from smoking using educational and behavioral interventions before using pharmacologic approaches. If Habitrol therapy is used during pregnancy, or if the patient becomes pregnant while using Habitrol treatment, the patient should be apprised of the potential hazard to the fetus.

Safety Note Concerning Children

The amounts of nicotine that are inhaled by adult smokers can produce symptoms of poisoning and could prove fatal if Habitrol systems are applied or ingested by children or pets. Used 21 mg/day systems contain about 60% (32 mg) of their initial drug content. Therefore, patients should be cautioned to keep both used and unused Habitrol systems out of the reach of children and pets.

PRECAUTIONS

General

The patient should be urged to stop smoking completely when initiating Habitrol therapy (see DOSAGE AND ADMINISTRATION). Patients should be informed that if they continue to smoke while using Habitrol systems, they may experience adverse effects. It is due to peak nicotine levels higher than those experienced from smoking alone. If there is a clinically significant increase in cardiovascular or other effects attributable to nicotine, the Habitrol dose should be reduced or Habitrol treatment discontinued (see WARNINGS). Physicians should anticipate that concomitant medications may need dosage adjustment (see Drug Interactions).

The use of Habitrol systems beyond 3 months by patients who stop smoking should be discouraged because the chronic consumption of nicotine by any route can be harmful and addictive.

Allergic Reactions: In a 6-week open-label clinical irritation and sensitization study of Habitrol systems, 22 of 270 patients exhibited dermal erythema at 24 hours after application. Upon rechallenge, 4 patients exhibited mild to moderate dermal erythema. Patients with contact sensitization should be cautioned that a serious reaction could occur from exposure to other nicotine-containing products or smoking. In the efficacy trials, erythema following system removal was typically seen in about 17% of patients, stinging/itching in 4%, and pruritus due to skin reaction occurred in 6% of patients.

Patients should be instructed to promptly discontinue the Habitrol treatment if, on initiation, they experience severe or persistent local skin reactions at the site of application (e.g., severe erythema, pruritus or edema) or a generalized skin reaction (e.g., urticaria, hives, or generalized rash).

Skin Disease: Habitrol systems are usually well tolerated by patients with normal skin, but may be irritating for patients with some skin disorders (eczema or psoriasis).

Cardiovascular or Peripheral Vascular Diseases: The risks of nicotine replacement in patients with certain cardiovascular and peripheral vascular diseases should be weighed against the benefits of including nicotine replacement in a smoking cessation program for them. Specifically, patients with coronary heart disease, a history of myocardial infarction, and/or angina pectoris, smokers with peripheral vascular disease, and/or arterial disease (Buerger's disease, Prinzmetal's variant angina) should be carefully monitored and evaluated before nicotine replacement is prescribed.

To minimize the occurrence of adverse effects with the use of Habitrol treatment, was reported discontinuously. If severe and/or persistent symptoms occur with Habitrol treatment, it should be discontinued.

Habitrol treatment should generally not be used in patients during the immediate post-myocardial infarction period, patients with serious arrhythmias, and patients with a history of angina pectoris, or in patients with a history of angina pectoris. However, given that nicotine is not a direct myocardial stimulant, and that its toxicity is dependent on the dose and duration of exposure, the use of Habitrol treatment in patients with a history of angina pectoris should be considered on a case-by-case basis. Only severe and/or persistent symptoms should be considered as a contraindication to the use of Habitrol treatment.

Endocrine Diseases: Habitrol treatment should be used with caution in patients with hyperthyroidism, pheochromocytoma, or insulin-dependent diabetes mellitus, because the release of catecholamines by the adrenal medulla may be increased by nicotine.

Peptic Ulcer Disease: Nicotine drugs treating peptic ulcer disease. Therefore, Habitrol treatment should be used with caution in patients with active peptic ulcers, and only when the benefit of including nicotine replacement in a smoking cessation program outweighs the risks.

Accelerated Hypertension: Nicotine constitutes a risk factor for development of essential hypertension in patients with accelerated hypertension. Therefore, Habitrol treatment should be used with caution in these patients, and only when the benefit of including nicotine replacement in a smoking cessation program outweighs the risks.

Information for Patients

A patient information sheet is included in the package of Habitrol systems. It provides information to patients on the use of Habitrol systems, properly. Patients should be encouraged to seek the physician and pharmacist. Patients should be advised to keep both used and unused systems out of the reach of children and pets.

children and pets.

Drug Interactions

Smoking cessation with or without nicotine replacement may alter the pharmacokinetics of other drugs.

May Require a Decrease in Dose at Cessation of Smoking

Amphetamine, oxazepam, pentazocine, propranolol, theophylline.

Insulin.

Adrenergic antagonists (e.g., prazosin, labetalol).

May Require an Increase in Dose at Cessation of Smoking

Alcohol, isoproterenol, phenylephrine.

Carcinogenesis, Mutagenesis, Impairment of Fertility
Nicotine and its metabolites increased the incidence of tumors in the cheek pouches of hamsters and forestomach of F344 rats, respectively, when given in combination with tumor initiators. One study, which could not be replicated, suggested that cotinine, the primary metabolite of nicotine, may cause lymphoplasmic sarcoma in the large intestine in rats.

Nicotine and cotinine were not mutagenic in the Ames *Salmonella* test. Nicotine induced repairable DNA damage in an *E. coli* test system. Nicotine was shown to be genotoxic in a test system using Chinese hamster ovary cells. In rats and rabbits, implantation can be delayed or inhibited by reduction in DNA synthesis that appears to be caused by nicotine. Studies have shown a decrease in litter size in rats treated with nicotine during gestation.

Pregnancy Category D (see WARNINGS)

The harmful effects of cigarette smoking on maternal and fetal health are clearly established. These include low birth weight, an increased risk of spontaneous abortion, and increased perinatal mortality. The specific effects of Habitrol treatment on fetal development are unknown. Therefore, pregnant smokers should be encouraged to attempt cessation using educational and behavioral interventions before using pharmacologic approaches.

Spontaneous abortion during nicotine replacement therapy has been reported as with smoking; nicotine as a contributing factor cannot be excluded.

Habitrol treatment should be used during pregnancy only if the likelihood of smoking cessation justifies the potential risk of use of nicotine replacement by the patient, who may continue to smoke.

Teratogenicity

Animal Studies: No effect was shown to produce skeletal abnormalities in the offspring of mice when given doses toxic to the dams (25 mg/kg/day IP or SC).

Human Studies: Nicotine teratogenicity has not been studied in humans except as a component of cigarette smoke. Each cigarette smoke delivers about 1 mg of nicotine. It has not been possible to conclude whether cigarette smoking is teratogenic to humans.

Other Effects

Animal Studies: A nicotine bolus (up to 2 mg/kg) to pregnant rhesus monkeys, raised at doses, hyperreflexia and hypotension (fetal and maternal) central nervous system were about 20 times those achieved after smoking 1 cigarette in 5 minutes. Fetal breathing movements were reduced in the fetal lamb after intravenous injection of 0.25 mg/kg nicotine to the ewe (requivalent to smoking 1 cigarette every 2 seconds for 5 minutes). Uterine blood flow was reduced about 30% after infusion of 0.1 mg/kg/min nicotine for 20 minutes to pregnant rhesus monkeys (equivalent to smoking about 6 cigarettes every minute for 20 minutes).

Human Experience: Cigarette smoking during pregnancy is associated with an increased risk of spontaneous abortion, low-birth-weight infants and perinatal mortality. Nicotine and carbon monoxide are considered the most likely mediators of these outcomes. The effects of cigarette smoking on fetal cardiovascular parameters have been studied near term. Cigarettes increased fetal aortic blood flow and heart rate, and decreased uterine blood flow and fetal breathing movements. Habitrol treatment has not been studied in pregnant humans.

Labor and Delivery

Habitrol systems are not recommended to be used during labor and delivery. The effects of nicotine on the mother or the fetus during labor are unknown.

Nursing Mothers

Caution should be exercised when Habitrol therapy is administered to nursing women. The safety of Habitrol treatment in nursing infants has not been examined. Nicotine passes freely into breast milk. The milk-to-plasma ratio averages 2:9. Nicotine is absorbed orally. An infant has the ability to clear nicotine by hepatic first-pass clearance; however, the efficiency of removal is probably 1:1 at birth. The nicotine concentrations in milk can be expected to be lower with Habitrol treatment when used as directed than with cigarette smoking. As maternal plasma nicotine concentrations are generally reduced with nicotine replacement, the risk of exposure of the infant to nicotine from Habitrol systems should be weighed against the risks associated with the infant's exposure to nicotine from continued smoking by the mother (passive smoke exposure and continued oral or breast milk with other components of tobacco smoke) and from Habitrol systems alone or in combination with continued smoking.

Pediatric Use

Habitrol systems are not recommended for use in children because the safety and effectiveness of Habitrol treatment in children and adolescents who smoke have not been evaluated.

Geriatric Use

Forty-eight percent is over the age of 60 years. In clinical trials of Habitrol therapy, Habitrol therapy appeared to be as effective in this age group as in younger smokers.

ADVERSE REACTIONS

Assessment of adverse events in the 792 patients who participated in controlled clinical trials is complicated by the occurrence of GI and CNS effects of nicotine withdrawal as well as nicotine excess. The actual incidences of both are confounded by concurrent smoking by many of the patients. In the trials, when reporting adverse events, the investigators did not attempt to identify the cause of the symptoms.

Topical Adverse Effects

The most common adverse effect associated with topical nicotine is a short-lived erythema, pruritus, or burning at the application site, which was seen in at least one

in 35% of patients on Habitrol treatment in the clinical trials. Local erythema at system removal was noted at least once in 17% of patients and local edema in 17%. Erythema generally resolved within 24 hours. Cutaneous hypersensitivity (contact sensitization) occurred in 2% of patients on Habitrol treatment (see PRECAUTIONS: Allergic Reactions).

Probably Causally Related

The following adverse events were reported more frequently in Habitrol-treated patients than in placebo-treated patients or exhibited a dose response in clinical trials: Digestive system: "Diarrhea," "dyspepsia," Mouth/Tooth disorders: "Dry mouth," Musculoskeletal system: "Arthralgia," "myalgia," Nervous system: "Abnormal dreams," "somnolence," Frequencies for 21 mg/day system: *Reported in 3% to 9% of patients; †Reported in 1% to 3% of patients; ‡Reported in 1% to 3% of patients; §Reported in 1% to 3% of patients.

Causal Relationship Unknown

Adverse events reported in Habitrol- and placebo-treated patients at about the same frequency in clinical trials are listed below. The clinical significance of the association between Habitrol treatment and these events is unknown, but they are reported as alerting information for the clinician: Body as a whole: "Allergy," "back pain," Cardiovascular system: "Hypertension," Digestive system: "Abdominal pain," "constipation," "nausea," "vomiting," Nervous system: "Dizziness," "concentration impaired," "headache," "insomnia," Respiratory system: "Cough," "increased pharyngitis," "sinusitis," Urogenital system: "Dysmenorrhea," Frequencies for 21 mg/day system: *Reported in 3% to 9% of patients; †Reported in 1% to 3% of patients; ‡Reported in 1% to 3% of patients; §Reported in 1% to 3% of patients.

DRUG ABUSE AND DEPENDENCE

Habitrol systems are likely to have a low abuse potential based on differences between cigarettes and Habitrol systems. Cigarettes and Habitrol systems differ in four characteristics commonly considered important in contributing to abuse: much slower absorption, much smaller fluctuations in blood levels, lower blood levels of nicotine, and less frequent use (i.e., once daily).

Dependence on nicotine polacriflex chewing gum replacement therapy has been reported. Such dependence might also occur from transference to Habitrol systems. Dependence on tobacco-based nicotine replacement. The use of the system beyond 3 months has not been evaluated and should be discouraged.

To minimize the risk of dependence, patients should be encouraged to withdraw gradually from Habitrol treatment after 4 to 8 weeks of use. Recommended dose reduction is to progressively decrease the dose every 2 to 4 weeks (see DOSAGE AND ADMINISTRATION).

OVERDOSEAGE

The effects of applying several Habitrol systems simultaneously or of swallowing Habitrol systems are unknown (see WARNINGS: Safety Note Concerning Children).

The oral LD₅₀ for nicotine in rodents varies with species but is in excess of 1 mg/kg; death is due to respiratory paralysis. The oral minimum lethal dose of nicotine in dogs is greater than 5 mg/kg. The oral minimum acute lethal dose for nicotine in human adults is reported to be 40 to 60 mg (i.e., 1 mg/kg).

Two or three Habitrol 30 mg systems in capsules led to dogs weighing 8-10 kg were emetic, but did not produce any other significant clinical signs. The administration of these patches corresponds to about 6-17 mg/kg of nicotine.

Signs and symptoms of an overdose of Habitrol systems would be expected to be the same as those of acute nicotine poisoning including: pallor, cold, sweat, nausea, salivation, vomiting, abdominal pain, diarrhea, headache, dizziness, disturbed hearing and vision, tremor, mental confusion, and weakness. Prostration, hypotension, and respiratory failure may ensue with large overdoses. Lethal doses produce convulsions quickly and death follows as a result of peripheral or central respiratory paralysis or less frequently cardiac failure.

Overdose From Topical Exposure

The Habitrol system should be removed immediately if the patient shows signs of overdose and the patient should seek immediate medical care. The skin surface may be flushed with water and dried. No soap should be used since it may increase nicotine absorption. Nicotine will continue to be delivered into the bloodstream for several hours (see CLINICAL PHARMACOLOGY: Pharmacokinetics). After removal of the system because of a depot of nicotine in the skin.

Overdose From Ingestion

Persons ingesting Habitrol systems should be referred to a health care facility for management. Due to the possibility of nicotine-induced seizures, activated charcoal should be administered. In unconscious patients with a secure airway, nasogastric lavage with activated charcoal or sorbitol added to the first dose of activated charcoal may speed gastrointestinal passage of the system. Repeated doses of activated charcoal should be administered as long as the system remains in the gastrointestinal tract since it will continue to release nicotine many hours.

Management of Nicotine Poisoning

Excessive bronchodilation or diarrhea, respiratory support for respiratory failure, and vigorous fluid support for hypotension and cardiovascular collapse.

Safety and Handling

Habitrol systems are a dermal irritant and can cause contact sensitization. Although exposure of health care workers to nicotine from Habitrol systems should be minimal, care should be taken to avoid unnecessary contact with active systems. If you do handle active systems, wash with water alone, since soap may increase nicotine absorption. Do not touch your eyes.

Disposal

When the used system is removed from the skin, it should be folded over and placed in the protective pouch which contained the new system. The used system should be immediately disposed of in such a way to prevent its access by children or pets. Patient information for further directions for handling and disposal.

How to Store

Do not store above 86°F (30°C) because Habitrol systems are sensitive to heat. Slight discoloration of the system is not significant.

Do not store unopened. Once removed from the protective pouch, Habitrol systems should be applied promptly since nicotine is volatile and the system will lose strength.

CAUTION: Federal law prohibits dispensing without prescription.

Printed in U.S.A.

C92-1 Rev

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WHEN ELITES LOSE THE PULSE OF POPULAR OPINION

It's weird out there, man," President Bush has taken to exclaiming lately. Given events of the past year, could blame him? Bush has gone from the highest Presidential popularity ever recorded to running a sorry race in his bid for reelection. His Democratic challenger, Bill Clinton, was a meat wrapped in tabloid newspaper headlines only four months ago. And in between it all, a pint-sized billionaire also stole the show.

Now comes a little-noticed book that looks at this wild year in a fresh and interesting perspective. Forget the old matches, liberal vs. conservative and Democratic vs. Republican. In *Populism and Elitism: Politics in the Age of Equality*, author Jeffrey Bell defines American politics as a never-ending tug-of-war between populists and elitists.

For Bell, populism is a cynicism about people's ability to make decisions about their lives. Elitism is optimism about the decision-making ability of the more elites, acting on behalf of the rest of the country. In politics, the line is drawn between those who value popular opinion and those who rely on the opinion of the elites.

Elitists focus on the personalities of candidates. Populists prefer issues. Elitists support a parliamentary government. Populists like referendums and direct democracy. Elitists judge candidates on how they react in crisis. Populists look for strongly held convictions. Populists embraced Ross Perot's notion of electronic town meetings. Elitists snickered. Frequently, populist opinion follows the influential elitist, such as Franklin D. Roosevelt or Dwight D. Eisenhower. But in the prevailing populist views—what Bell calls the popular stream—veer sharply away from the views of the governing elite, there's upheaval.

The last great pivotal year in modern American politics was 1968, Bell argues. President Lyndon B. Johnson bowed out of the White House, having lost the support of both the liberal and conservative elites over the

Vietnam War. The death of Robert F. Kennedy snuffed out the last effective populist in the party, he says. After the police violence at the Chicago Democratic National Convention, "Middle America" didn't see what all the fuss was about. The elites were appalled. George Wallace splintered the Democrats further by diverting populist votes. And Richard M. Nixon, stressing the potent populist issue of white suburban Silent Majority values, squeaked into office.

Since then, a "split-level alignment" has prevailed. Republicans control the

Only once or twice does Bell, a prominent supply-side Republican, let his ideology shade his analysis. For example, Democrats tend to be "hard-headed practical pols who excel at bringing home the bacon." The pork barrel, of course, holds more than one brand of bacon, and a defense contract snagged by a conservative senator is no less porcine than a big public-works project lassoed by a liberal.

Naturally, Bell believes Ronald Reagan fit comfortably in the popular stream. From tax cuts to Star Wars, Reagan believed issues were simple and understandable to average voters. Jimmy Carter, Walter Mondale, and Michael Dukakis all failed, Bell argues, because they were liberal elitists whose experts kept giving "the wrong answers" to the popular stream.

Bell never directly applies his theories to what's happening in 1992. But you can, once you get the hang of seeing through his lens. For example, Bell notes that the popular stream, which has not changed much since 1988, or 1968, for that matter, "frequently goes outside of trained political elites when public evils appear to be mounting." No wonder voters were ripe this year for Ross Perot. Not only was he perceived as an outsider but also as a conservative-populist in the image of Reagan.

Despite his brain trust and Rhodes Scholarship, Clinton has adroitly evaded being defined as an elitist. Bush hasn't. He stressed his résumé rather than his plans. Worse, he has misidentified some issues as elitist. Environmentalism, for example, has actually been rooted in the popular stream for some time: The sentiment that led to Earth Day, 1970, soon saw Nixon pushing legislation for clean air and water. Bush has sided with business elites in stifling cleanup efforts that polls show are popular with voters.

Finally, in what would seem to defy the reality of 1992, the author argues that national politics isn't about economics. The real clash, he insists, remains populist opinion vs. the views of the elites. If that's so, Bush's strategy to make 1992 a remake of the 1988 "values" slugfest with Michael S. Dukakis could work. It has been a crazy year. It could get crazier.

BY DOUGLAS HARBRECHT

Harbrecht is BUSINESS WEEK's White House correspondent.



White House because they reflect the conservative view that gained the upper hand in the popular stream. A moderate liberalism has prevailed among elitists, Bell says, and that's where candidates for state and local office come from.

Why? While populists tend to focus only on Presidential races, elites are plugged into politics all the time, almost for the sport of it. When they reach Congress, these political problem solvers tend to represent the special interests of the elites that fund congressional races.

If you think all politicians sound alike and you can't tell an elitist from a populist, Bell can explain that. Liberal candidates are "being advised to sound more populist to attract popular opinion, and conservative candidates to sound less populist to attract the elites—political, media, and financial—whose support or at least acceptance is important in getting a candidacy off the ground."

When crossing the pond, consider the airline

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ALL RIGHT, WE'VE BEEN IN ENOUGH DEEP VOODOO. NEXT?

BY ROBERT KUTTNER



With a tarnished incumbent carrying a tattered supply-side banner, we'll have a useful debate about the economy. Resolved: Logic and history are on the side of growth led by public investment

A reluctant President Bush, pinioned by his own right wing, has swallowed another dose of tax-cut tonic. This is toxic medicine—but it could serve as a useful purgative. Supply siders led by Housing & Urban Development Secretary Jack Kemp, Representative—and Bush campaign co-chairman—Vin Weber (R-Minn.), and House Minority Whip Newt Gingrich (R-Ga.) persuaded the GOP platform committee to disavow the 1990 tax increase as “recessionary” and to propose new tax cuts. These are referred to, unconvincingly, as “growth measures.” Now, the recidivist GOP platform calls for cuts in personal, corporate, and capital-gains taxes, which would widen the deficit by about \$75 billion, and then simultaneously calls for a balanced budget!

This tonic has been tried before, and we are now suffering its aftereffects. In 1978, when the claims were new, policymakers might have been forgiven for yielding to temptation. After all, it doesn't take great political courage to offer voters, especially well-off ones, tax cuts. The theory was that lower taxes, especially on capital income, would increase rates of savings, investment, and growth. The economy would grow so prodigiously that new revenues would make up for the tax cuts. Supply siders forecast a balanced budget by 1984.

What actually occurred, of course, was a permanent hole in the tax base. The economy enjoyed a temporary, deficit-driven jolt to growth, extended briefly when the Federal Reserve helpfully reversed its tight-money policy. But contrary to the claims, neither personal savings nor investment increased—and growth gradually petered out. The economy, lacking adequate investment, grew dependent on ever larger deficits and ever cheaper money just to tread water. Since 1989, per capita income has actually fallen.

GROWTH YEARS. For both parties, restoring growth is the key election issue. To the supply siders, what killed growth was not the failure of their theory, but ill-conceived tax increases. Their remedy is to revert to Reagan-style tax cuts. But this diagnosis is belied by recent history. The biggest tax hike of the Reagan-Bush era was the \$150 billion tax increase of 1982, supported by leading House and Senate Republicans, which partially compensated for excesses in the 1981 Economic Recovery Tax Act. The 1982 tax act restored less than half the revenue losses created by the tax cut of 1981—but it nonetheless ushered in seven years of growth.

The far smaller 1990 tax increase, which enjoyed bipartisan support as a deficit-reduction measure, raises about \$26 billion a year—less than one-tenth of the projected annual

deficit, less than half of 1% of gross national product—far too little money to have much impact on capital supply. After a decade-long test and refutation of the supply-side hypothesis, only hard-core believers still insist that lower taxes on capital are the key to investment and growth. Yet this group still pulls the strings of a Republican Party whose incumbent evidently believes what he said back in 1980—that supply side is “voodoo economics.”

With a tarnished Republican candidate unconvincedly carrying a tattered supply-side banner, we shall have a useful three-way debate about the economy. The Clinton approach and the supply side do have two things in common. Both believe that increased growth now is the key to greater revenues and falling deficits down the road. And Clinton, like the supply siders, wants to boost growth by increasing investment. But where supply siders hope to lure investors with across-the-board tax cuts, Clinton would stimulate investment directly, through public outlays and narrowly targeted tax subsidies.

AUSTERITY'S CASE. The third party to the debate represents austerity and deflation—a bipartisan view now championed by noncandidates Ross Perot, investment banker Peter G. Peterson, former Senator Paul E. Tsongas (Mass.), and retiring Senator Warren Rudman (R-N.H.). In the austerity view, the top priority is deficit-reduction: If the deficit is cut, high rates of savings and private investment will soon follow, leading to restored growth.

But the deflationist claims, like those of the supply siders, are based on false logic. In the early 1980s, a permanent tax cut on capital income was supposed to gun investment. It didn't. In the late 1930s, smaller deficits were supposed to restore business confidence, but they only prolonged the Great Depression. Today, investment is slack because household purchasing power is flat, and business sees no reason to invest—despite ever lower interest rates and tax rates far lower than those of the post-World War II boom. An abrupt cut in the deficit would only be that much more deflationary. In this economy, the only solution to growth led by investment. And only one source can overcome the reluctance of business to invest: public investment, most of which soon translates into private investment through government-procurement contracts.

This debate is a healthy one, and it deserves a full airing. The supply siders have been discredited by recent history. They may soon be repudiated by the voters. The deflationists are always with us. But self-confident progressive Administrations are wise to put them no mind.

ROBERT KUTTNER IS CO-EDITOR OF THE AMERICAN PROSPECT AND AUTHOR OF THE END OF LAISSEZ-FAIRE



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*R*ecently, Fannie Mae commissioned a landmark National Housing Survey. Over 1,500 homeowners and renters were interviewed by Hart-Teeter Research, and the results provide a very comprehensive overview of Americans'



attitudes about homeownership. *T*he survey shows that Americans are willing to make great sacrifices to own a home.

*B*y a three to one margin, they'd rather own a home than retire 10 years early; by a four to one margin, they'd rather own some distance from work than rent within easy commuting range; by a four to one

margin, they'd rather own than take a better job in a city where they'd have to rent; and by a greater than two to one margin, they're willing to take a second job if that's what it takes to buy a home. *W*hat makes

owning a home so desirable? A combination of personal, family, and financial security. In spite of recent publicity about falling prices, 78% of those responding think owning a home is still a good investment, while only 2% consider it a bad one. And 77% think their home would sell today for more than they paid for it.

*S*OME IMPORTANT FINDINGS ABOUT THIS HOUSE.

Homeownership is valued most by those who have to struggle to achieve it. "Owning your own home" is an im-

portant goal for 60%

f those in the

lowest income

brackets, but

only 31% of those

in the highest. And more

African Americans and Hispanics list

homeownership as a primary goal than

do whites. Unfortunately, despite the

fact that America has one of the highest

homeownership rates in the world, the

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By a three to one margin, people identi-

fied the lack of affordable housing as

"one of the two or three most serious problems facing the U.S."

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SHOWING AMERICA A NEW WAY HOME.

BY GENE KORETZ

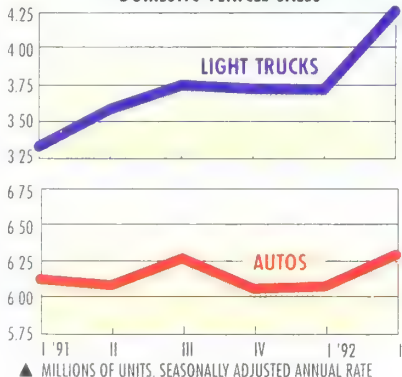
AMERICA KEEPS ON TRUCKIN', TO DETROIT'S DELIGHT

It's becoming increasingly clear that the long-awaited upswing in domestic auto sales is still hanging fire. Although demand perked up slightly in June and July, as fleet purchases accelerated temporarily, sales of domestically produced cars in early August slowed to a 5.7 million-unit annual rate. That's not only their worst showing since mid-January but also below their sluggish pace in the same period a year earlier.

Focusing solely on auto sales, however, paints too dark a picture of Detroit's woes, says economist M. Kath-

DETROIT'S RECOVERY IS MOSTLY IN LIGHT TRUCKS

DOMESTIC VEHICLE SALES



ryn Eickhoff of Eickhoff Economics Inc. The big news, she notes, is the sharp pickup in sales of light trucks, which account for more and more of consumer automotive demand and are primarily produced by the Big Three U.S. auto makers. Indeed, light-truck sales, which were up a striking 32%, were strong enough to lift total car and light-truck sales in early August by 11% over their year-earlier level.

The growing penetration of the U.S. consumer-vehicle market by minivans and sports-utility vehicles (page 78), which were invented by U.S. companies, are a classic example of a tail that is starting to wag the dog. Together with pickup trucks, sales of such light trucks equaled 25% of auto sales in 1982. By 1987, they were cruising at about 45% of the rate of car shipments. And by the second quarter of this year, the pace had accelerated to 55%, or more than one light truck sold for every two cars.

The implications for the economy of

this continuing shift in consumer preferences is highly positive. For one thing, light trucks have accounted for virtually all of the pickup in domestic vehicle sales since their trough in early 1991, as domestically produced cars have gone nowhere (chart). And Detroit's Big Three not only dominate the light-truck market but have actually been gaining market share. Thus far in 1992, their share of U.S. light-truck sales is running at 86.1% vs. 82.9% in the same period last year, estimates auto analyst Harvey E. Heinbach of Merrill Lynch & Co.

Eickhoff points out that light trucks also account for all of the gains U.S. carmakers have posted against the Japanese in the past year. While car imports have declined somewhat as Japanese manufacturers have shifted production to the U.S., the share of U.S. auto sales claimed by Japanese imports and transplants has remained relatively stable. But the Japanese share of U.S. light-truck sales has fallen by over three percentage points, to under 14%.

All of this bodes well for Detroit and the economy. Overall, analysts believe that light trucks have higher price tags than the family cars they are replacing in consumer purchases. And although the light-truck market is highly competitive among U.S. companies, the weak Japanese rivalry thus far means that profit margins are under less pressure than for most autos. "As long as the light-truck market keeps expanding," says Eickhoff, "U.S. companies and the U.S. economy are likely to benefit."

DOWNSIZING CAN PUSH UP WORKERS' COMP CLAIMS

Even with fewer employees, downsized companies are facing sharply higher workers' compensation costs. That's the finding of a survey of 177 companies conducted for the American Management Assn. by the consulting firm of William M. Mercer Inc.

Some 55 of the companies surveyed reported cutbacks in their work forces in recent years, with the average decline registering 13% over the past 15 months. Of the shrinking companies, one of three said their thinner employment levels have actually led to a greater incidence of workers' comp claims—that is, the percent of their workers filing such claims rose in the wake of downsizing. "The anomaly," explains a Mercer consultant, "results from increased injuries sustained by surviving employees, many of them older workers, who assume unfamiliar jobs."

TRIPLE DIP? SPOT PRICES SHOULD FLASH A WARNING

Keep your eye on commodity prices. The Commodity Research Bureau's futures index has plunged to a six-year low. But the CRB's spot industrial-price index is up about 8% since January and has held its own in recent weeks. Indeed, the sensitive materials-prices component of the index of leading indicators has risen for four straight months. As long as spot prices resist the downward pull of futures prices, observers believe the economy is likely to eke out continued growth. But if they weaken significantly, the chances of a triple dip will escalate.

'THE ELECTION WILL PROBABLY HAVE LITTLE IMPACT ON THE MARKET'

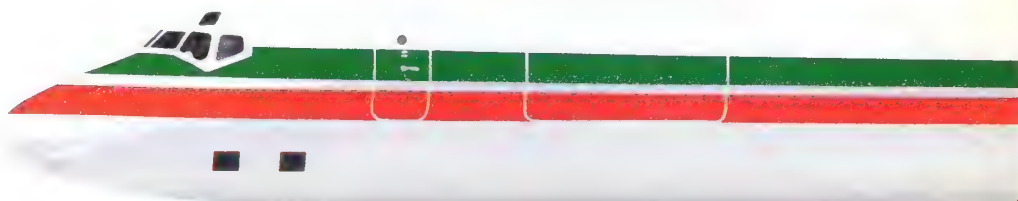
Although President Bush's electoral chances seem to be improving, public-opinion polls and the parlous state of the economy still appear to favor a Clinton victory in November. What might such a prospect bode for the stock market in the months and year ahead?

To find out, economist Gregory Gieber of Smith Barney, Harris Upham & Co. examined the historical records of market movements in each of the 12 instances since 1884 in which control of the White House changed political parties. What he found was that despite the high degree of uncertainty that presumably attended such elections, "the market tends to do well in the months just prior to a Presidential election."

The pattern after an election in which an incumbent party loses is less consistent. While the stock market posted an average gain of 2.4% in the 12 months following such elections, the results varied widely, with both parties posting many gains as losses. On average, the Standard & Poor's 500-stock index rose by 7.6% from November to November the six times that Democrats captured the White House and fell 2.9% when power passed to the Republicans.

The upshot, says Gieber, is that history offers little clue to the impact of a Clinton victory on the stock market. But it does suggest that "the election will probably have little impact on the market in the near term." The biggest influence, he believes, will continue to be the monetary environment, which he feels "remains highly favorable."

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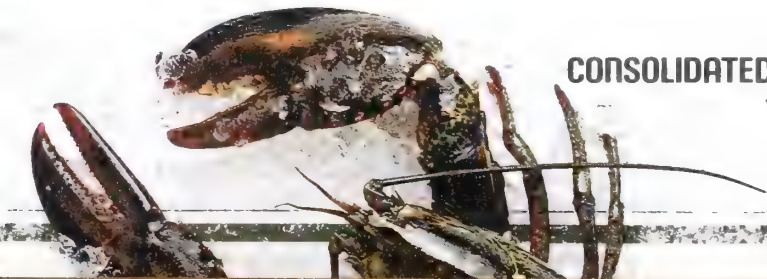
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WHERE BLACK ENTERPRISE GETS A BOOTH AND A BOOST

It's a little after 2 p.m., and Ahmad Sandidge is busy laying out hats and leather bags at his booth. In front of the display, a tall model wearing an orange-and-black African-print jumpsuit hands me a flyer describing the Sandidge Design Group, a garment-manufacturing company. Around us are some 350 other booths covering 119,000 square feet of the Jacob Javits Convention Center. A few look like miniature art galleries, exhibiting paintings and posters of Malcolm X and Martin Luther King Jr. At others, dark-suited salesmen hawk the latest software packages.

Over 75,000 New Yorkers will turn out for this trade fair, which, in its direct appeal to consumers, is more like a street fair than the usual, business-to-business show. But this is a trade show with another key difference. At Black Expo USA, which stopped here on its summer tour on the way to Cleveland, Oakland, Washington, Dallas, Los Angeles, Kansas City, and finally New Orleans in the fall, most of the exhibitors are black-owned businesses.

BLEAK OUTLOOK. Advertisements for the New York expo urge black consumers to vent their frustrations over the Rodney King verdict in Los Angeles by turning out for black entrepreneurship. And the community is responding. "This is what we should've been doing in the first place," says Bob Meritt, who has been coming to the expo since its 1989 debut. "Why should I buy from Macy's if I can buy from black businesses?" he asks.

Judging from the hustle and bustle of the expo crowd and the number of dollars being exchanged, it looks as though black capitalism is flourishing. But in fact, the situation hasn't changed much since the 1960s, when Harlem Representative Adam Clayton Powell Jr. shouted slogans such as "Earn, baby, earn" and "Don't buy where you can't work." Today, blacks own only about 3% of U.S. businesses, and those businesses account for a mere 1% of the nation's sales. And, as many of the fledgling businesses here attest, most black-owned enterprises are too small to offer many jobs. Black Expo is an attempt to do something about that state of affairs.

Walking through the glass doors of

the convention center, I'm swept along by the weekend crowd, weaving in and out of the narrow aisles. Free samples of everything from perfume to soda are being pushed toward me from every direction. It's as noisy as rush hour at Grand Central station, as vendors scream out their sales pitches over the loud bass of a rap song that's being broadcast by a local radio station.

What is it that has drawn these entrepreneurs to the four-day Black Expo? Part of the answer lies in its history, described by Jerry Roebuck, its 38-year-old chairman and founder. Roebuck says he was inspired by other black entrepreneurs who "couldn't afford high-priced advertising, so I organized the Black

les-based apparel company, just 10 years old, is owned by Carl Jones, 31, and T.J. Walker, 31. The company's sportswear, carrying messages such as "Stop the Violence" and "Love Sees Color," can be found in Japan, Europe, and at large retail chains such as Macy's, Merry-Go-Round, and CODA.

So, what brings Cross Colours to Black Expo? With success came rumors that the company was part of a big corporation. Says Davide Stennett, director of marketing: "We use the expo to let consumers know we're black-owned."

'BE LAWLESS.' Next is an elaborate display for a fragrance company—a modern twist on the personal-care product field that has long been a staple of black enterprise. A huge designer bottle of cologne with the word "Lawless" printed boldly across it is on top of the brightly lit booth. Charles Perry, 45, standing next to a sign that reads "For once in your life be Lawless," is handing out samples of his men's cologne.

The company, PVJ Fragrances Inc., remains small. For years, Perry has en-



Expo to bring people out to meet them."

The first expo, which drew 156 vendors and a crowd of 20,000, was held in a passenger-ship terminal in New York City in 1989. It took two years to put together, with a lot of help from PepsiCo Inc. By 1991, the expo was enough of a success that Coca-Cola Co. offered \$1 million to \$2 million over three years and became its primary sponsor.

After talking to Roebuck, I fight my way back into the stream of people attached to shopping bags, only to come to an abrupt halt. Everyone in front of me is stopping at a booth displaying T-shirts, jeans, and shorts. On top is a jazzy red, black, and green sign that reads "Cross Colours." The Los Ange-

les-based apparel company, just 10 years old, is owned by Carl Jones, 31, and T.J. Walker, 31. The company's sportswear, carrying messages such as "Stop the Violence" and "Love Sees Color," can be found in Japan, Europe, and at large retail chains such as Macy's, Merry-Go-Round, and CODA.

Beyond the swarms of consumer there is a real trade show going on, as distributors stalk the expo looking for promising new businesses. Sandidge, smiling, tells how a Denver boutique owner who was looking for garments stopped by and said he would call to set up an appointment. And Jason Sims, the 28-year-old whose Big City Comics is dedicated to improving the image of blacks in the media, tells how last year he met a Japanese distributor here.

w, *BrotherMan: Dictator of Discipline* can be found all the way in Jamaica," he says.

show featuring Phe Zula's fashion collection has heads turning. Models wearing brightly colored gowns glide down the runway to the beat of African drums. All eyes are on one model as she shows off an African-print drape to reveal a stunning minidress.

Over in the kid's corner, children are playing on the indoor jungle gym and playing with board games while their parents are shopping. The exhibit is sponsored by Olmec Co., a black-owned toy company, and Toys 'R' Us Inc., which distributes Olmec toys.

Olmec employees are using their authority to hand out market-research surveys. "We ask consumers what kind of doll they want to see as a doll, and we take their suggestions in mind," says exhibit coordinator Renau Daniels. It's an approach that works for Olmec: Last year, the toymaker raked in about \$2 million in sales. Its best seller is Imani—an African girl doll dressed in a brightly colored Kente-cloth dress. Of course, Olmec still has a long way to go before it's

n display are
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frican-print apparel
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threat to the likes of Mattel Inc. But the toymaker's success inspires others. In the basement of the State Center, expo visitors can take in a series of business seminars. John Raye, executive with Dudley's Products, a maker of personal-care and hair products, is discussing "The ABCs of Starting Your Own Business." His advice: "The best businesses start at home, and the best finance is self-finance." His seminar ends with a final warning: "Remember, only people must become job makers, not job takers."

NICOLE HARRIS

fall, BW intern Harris will be returning to Syracuse University, where she is studying on a journalism degree.

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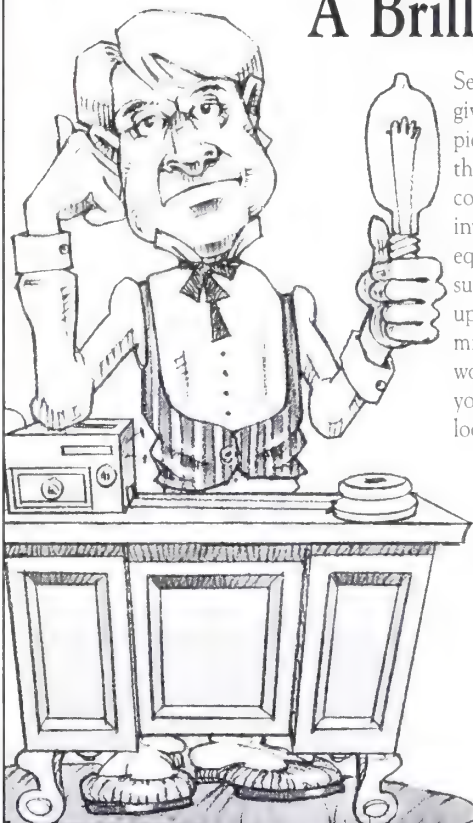
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IT AIN'T A RECOVERY UNTIL THE FACTORIES HUM

Manufacturing has always been the heart of the U.S. economy. And despite its ever-shrinking contribution to output, the factory sector still provides some of the best gauges of the twists and turns of the business cycle. Throughout this recovery, manufacturing's beat has been slow and erratic. And it's going to stay that way until consumers are financially able to provide a much-needed shot of adrenaline.

As consumers struggle with heavy debts and light wallets, manufacturers contend with a trickle of new orders, a shrinking backlog of unfilled orders, and uncertainty over the future. As a result, factories have little incentive to step up production and hiring. They have every reason to keep inventories as lean as possible. And under these conditions, they are in no rush to sell out for new equipment and buildings.

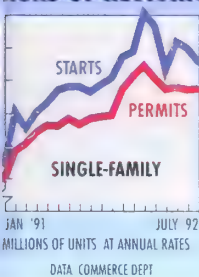
The slowdown in exports only makes matters worse. Exports surged in June, helping to narrow the trade deficit to \$6.6 billion from \$7.1 billion in May. However, exports had dropped in five of the previous six months.

Since 1986, the increasing contribution of foreign demand to manufacturing growth has pushed exports of goods as a share of industrial output steadily higher. That share hit a record in the first quarter, but it fell sharply last quarter, suggesting that exports' contribution to factory output is waning.

THE BOND MARKET RALLY IS A PLUS As for domestic demand, stubbornly high long-term interest rates have been particularly punishing for durable-goods manufacturers. On that front, the two-month rally in the bond market is good news. With long rates falling, mortgages are cheaper, and the demand for housing-related items and other high-cost, credit-sensitive durable goods should firm up in the second half, just as it did during the first-quarter surge in housing.

So far, the rate drop has not yet shown up in the housing data because of reporting lags. Housing starts in July fell 2.8%, to an annual rate of 1.12 million. The key single-family sector posted a 4.1% drop (chart). Overall, building permits jumped in July, but that says little about the future. All the rise in permits occurred in the multifamily sector, which is beset by past overbuilding. Single-family authorizations were about unchanged.

HOUSING SHOWS NO SIGNS OF REVIVING



August numbers on sales and starts should look better. Mortgage applications for home purchase dipped in early August, but they had jumped sharply in July. And the average for 30-year, fixed-mortgage rates fell to 8.01% on Aug. 14, down from 8.15% the week before. But still, housing demand is going to be constrained by job worries, weak income growth, and burdensome debts.

Moreover, the Presidential election could be a stumbling block for lower long-term rates. Despite the ever-brighter inflation outlook, long rates rose amid the bond market's renewed edginess over the fear that some new deficit-widening plan to cut taxes would emerge from the Republican convention (page 22). A Democratic victory in November would hold even more uncertainty.

THINGS ARE QUIET ON THE SHOP FLOOR Manufacturing just cannot seem to generate any momentum. After gains earlier this year, factory production was flat in July, after falling 0.2% in June (chart). Overall industrial production rose 0.4%, but that reflected a weather-related surge in electric-utility output and a rebound in mining output at the end of the rail strike.

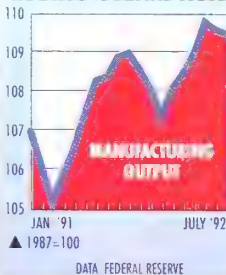
Because of tepid production gains, a lot of factory capacity stands idle. The factory operating rate fell from 77.8% in June to 77.6% in July. Before the recession in 1990, the rate was about 83%. The current low level of capacity use hardly justifies an increase in capital spending. It also implies that price pressures among goods producers are virtually nil—and likely to remain so.

Gyrations in auto production are partly responsible for the zig-zag pattern of factory output, and Detroit will be a plus in the third quarter. After gains in April and May, auto production fell back in both June and July—with attendant impacts on suppliers. Domestic car assemblies slipped to an annual rate of 5.7 million in July, from a 6.1 million pace in June, but Detroit's August and September schedules call for a jump to about 6.3 million in both months.

A potential problem for holding that faster production pace: Car sales in early August ran at an annual rate of only 5.7 million, down from 6.5 million for all of July.

The factory sector does have two fundamentals going for it. First, the combination of cost-cutting and productivity gains has completely stymied the growth in unit labor

FACTORIES ARE LOSING STEAM AGAIN



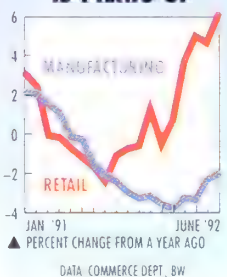
costs. That means better profitability even in a weak economy. Second, factory inventories in relation to sales, are the lowest on record. That means production can respond very quickly to any pickup in demand.

STILL, THERE'S LITTLE DEMAND

That's fine, but where's the demand? The poky pace of jobs and incomes has spooked U.S. consumers and derailed their buying plans. Capital spending looks iffy. Defense cuts keep coming. And slower growth abroad means less demand for American exports.

The trend in consumer spending is particularly ominous for manufacturers. Retail buying posted big gains in January and February, but it has stayed in a holding pattern since then. Until sales show a solid upward trend, retailers have no reason to boost their ordering.

WHERE INVENTORY IS PILING UP



Despite lean factory inventories, retail stocks were not in the best of shape in June. Inventories jumped 0.8%, as sales fell by 0.3%. During the past year, retailers have seen their stockpiles grow by more than 6% (chart), while sales are up less than 3%. This suggests that retailers are heading into the fall buying season with heavier-than-normal inventories—and questionable prospects for consumer spending.

Retail sales managed a 0.5% gain in July, but the Commerce Dept. revised away the originally reported June gain of 0.5% to show a decline. That was the third time in the past four months that Commerce has revised the sales data lower than first reported.

Most retailers showed sales gains in July, but for the most part, the increases just offset the June declines. Only furniture and clothing stores have been able to break out of the horizontal pattern plaguing retailers.

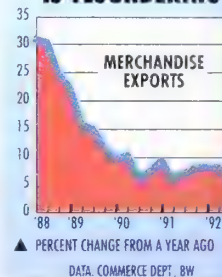
Worse, initial reports for August suggest another soft performance for total sales this month.

In addition to sagging car sales, early August department-store receipts look weak. The Johnson Redbook Service, published by Lynch, Jones & Ryan Inc., reports that store sales, which soared 2.3% in July, have fallen back this month. For the first two weeks of August, Johnson Redbook says sales are down 0.4% from July.

In addition, the University of Michigan's index of consumer sentiment in early August reportedly dropped to 75.3%, from 76.6% in July. Consumers worried about the economy are unlikely to go out on a shopping spree.

Of course, economic problems are not endemic to the U.S. Stagnation in other countries is hurting exports, while America's appetite for imports remains strong. These trends suggest that foreign trade will make little, if any, contribution to economic growth in the second half. In June, both imports and exports hit record levels. Imports rose 4.7% to \$44.9 billion, while exports jumped 7.2% to \$38.3 billion.

EXPORT GROWTH IS FLOUNDERING



Despite the June gain, export growth has slowed. In the year ended last quarter, exports were up only 5%—the slowest pace in five years (chart). Stagnant demand from Japan, Europe, and Canada has offset growth in export to Latin America. And that trend will not change until the industrialized economies start to expand again.

Making sure that U.S. consumers are up and running again is the first concern for most American manufacturers, however. Right now, households need two things: faster job growth and stronger balance sheets. The recovery's sluggish pace is saying that both of these may take a while. Until then, manufacturing will continue to beat in fits and starts—and so will the recovery.

THE WEEK AHEAD

CONSUMER CONFIDENCE

Tuesday, Aug. 25, 10 a.m.

The Conference Board's index of consumer confidence probably edged slightly higher in August, to a reading of 62.5, from July's dismal 61 level. That's the expectation of economists surveyed by MMS International, a division of McGraw-Hill Inc. The index had tumbled 11.6 points in July, a decline blamed on rising unemployment in June, plus uncertainty amid the Presidential campaign.

DURABLE GOODS ORDERS

Wednesday, Aug. 26, 8:30 a.m.

New orders taken by durable-goods producers likely rose by a small 0.5% in July, on top of a healthy 2.7% increase in

June. Declining aircraft demand in July offset increases in other industries. The small expected gain in new orders in July suggests that unfilled orders continued their steep decline, already 10 months old.

GROSS DOMESTIC PRODUCT (REVISION)

Thursday, Aug. 27, 8:30 a.m.

The MMS economists expect that revisions to the data on the second-quarter economy will likely show that real GDP grew at a 1.6% annual rate last quarter, instead of the lackluster 1.4% originally reported. Higher inventory accumulation will account for most, if not all, of the increase. The economy had grown by a much faster 2.9% clip in the first quarter. The MMS survey also says that

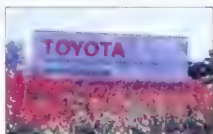
aftertax corporate profits probably increased by 4% in the second quarter on top of a 10.8% advance in the first. Cost-cutting finally is helping the bottom lines of many companies.

PERSONAL INCOME

Friday, Aug. 28, 10 a.m.

Personal income probably rose by just 0.3% in July, after no gain in June. Weak job growth is hampering a rebound in household earnings. Consumer spending, which increased by 0.5% in June, is projected to have risen by 0.4% last month. That's suggested by a modest increase in July retail sales. In addition, hot weather in July boosted consumer demand on utilities, a component of spending on services.

At Toyota, we couldn't conceive of a car these employees can identify with. Like the car, they are uncompromising, with an attention to detail that goes beyond the expected. And they're not content just to rest on the heritage of Toyota quality, they strive for continued improvement. In fact, because



of people like them, automotive standards in this country are being raised every day. But, the one thing all 4,000 employees of Toyota Motor Manufacturing in Georgetown, Kentucky, want you to know is, the 1992 Toyota Camry is not just a car they can be proud of, it's one you can be proud of, too.

INTELLIGENT. STRONG. RELIABLE. AND YOU SHOULD SEE THE CAR THEY BUILD.



THE ALL-NEW 1992 CAMRY.

WE JUST COULDN'T LOVE WELL ENOUGH ALONE.



"I love what you do for me."



1-800-GO-TOYOTA for a brochure and location of your nearest dealer.
More From Life... Buckle Up! © 1991 Toyota Motor Sales, U.S.A., Inc.

BATTLE STATIONS!

WHAT WILL THE GOP DO? 'ATTACK, ATTACK, ATTACK'

There were fireworks aplenty, both the verbal variety and a planned closing-night aerial display aimed at transforming the Houston Astrodome into a Fourth of July picnic. There were noisy protests outside and angry words inside. Looming above it all was a massive, faux-granite podium that, while seemingly more suited to Orwell than oratory, was created to give George Bush a platform for an urgent attempt to recast his embattled Presidency.

But as Republicans prepared to leave behind Houston and a convention notable for its hard-edged conservatism, some key questions echoed through the Astrodome. Among them: Was the Big Roundup enough to lasso the GOP's feuding factions and give the President a chance to pull off the miraculous Trumanesque comeback he promised? And would Bush's fiery attacks on Congress shift attention away from his economic failures?

Thanks to a feisty tone lacking in Bush's recent stump ramblings, the GOP

gala figures to cut Bill Clinton's 20-point lead. But Bush aides admit he faces an uphill fight. That will force the President to wage a take-no-prisoners campaign (box). "Our plan?" says a key Bush adviser. "It's attack, attack, attack. We have to scare the daylight out of people."

Far from showcasing the party's strengths, the Aug. 17-20 conclave exposed possible flaws in Bush's reelection blueprint. He had to devote much time and energy to pacifying conservatives with tough platform planks and prime speaking slots. Only then could he shift the focus to the independents and Reagan Democrats who will decide his fate—and may get a new wake-up call from billionaire Ross Perot. "The Democrats spent their convention reaching out to the center," says GOP consultant Jay Severin III. "Our biggest order of business was reenergizing the Republican Party. If that's all you do, you lose."

Republican conventions are often militant. What's more striking about Hous-



RIGHT STUFF: CONSERVATIVES WERE ASCENDING

ton was Bush's belief that after 12 years in the White House, he can run as a reformer. By stressing a repackaged bundle of tax incentives and spending restraints and hinting at second-term plans to retool health care, education and even his Cabinet, Bush has cast himself as a quiet revolutionary. "We are offering pie-in-the-sky change," says James Lake, a senior Bush campaign aide. "It has to be thoughtful, deliberate change."

After four years of economic stagnation, though, the public is in a mood

★ BUSHWHACKED? The Bush campaign's plan for erasing Bill Clinton



TAX AND SPEND

Despite Bush's, um, little tax bobble in 1990, he'll slash tax burdens in a second term. By contrast, liberal-in-moderate's-clothing Clinton

is just itching to tax the middle class. And by spending \$200 billion we don't have, his economic plan would trigger high inflation. Faster than you can say "Jimmy Carter," the economy would be reduced to a smoking ruin

UNTRUSTWORTHY

It's George ("Dare to be prudent") Bush vs. Bill ("Bomb the Serbs") Clinton. Bush knows the policy ropes.



Clinton needs a tour map to find the Washington Monument. And Bush has a world-class Rolodex. Look, folks, here's Deng Xiao Peng's home phone number



kooky lifestyles. Case in point: Draft-dodging Clinton is cozy with Hollywood liberals and rights groups. "Bar" is America's Grand lary, America's prosecuting attorney

SUSPENSE

Moving from Norr Rock public vere the f "tra family ues." crats Ame prom

-LIFE
-FAMILY



LEAVING BUSH TO SCRAMBLE FOR CRUCIAL INDEPENDENT VOTERS

nothing a mite bolder. And Republicans may have reinforced their ties to the past by turning Houston into a nostalgic Golden Oldies revue. Among the featured speakers: former Presidents Ronald Reagan and Gerald Ford, Kansas Senator Bob Dole, Patrick Buchanan, televangelist Pat Robertson, and the First Lady herself, Barbara Bush. Scoffs Houston political guru James Carville: "They trotted out so many old warhorses, they needed a veterinarian." The Bush team is also gambling that its finesse unhappiness with the Pres-

ident's economic record. Supply siders, led by Housing Secretary Jack F. Kemp, urged a more daring approach: slash tax rates, lavish tax subsidies on the cities, and ditch the deficit-cutting focus of the party's traditionalist wing. "We have to do something radically different," insists one glum Kempite. "Our economic policies over the past three years have been an utter failure."



But Bush could not bring himself to embrace the costly supply-side agenda. By backing modest, investment-oriented tax cuts, hinting at lower rates in a second term, and insisting on further deficit reduction, Bush took a familiar path: He coopted the Young Turks' rhetoric, while rejecting many of their proposals. The result, says one conservative official: "We have a schizoid President."

DOMESTIC STORM. The Administration continues to dangle the tax-reduction carrot for a second term. Among the options: a cut in Social Security payroll taxes, lower individual rates, a package of small-business tax cuts, a new look at ending the double taxation of dividends—even a new consumption tax to

pay for it all. Muses Treasury Secretary Nicholas F. Brady: "Lots of permutations might be possible if you had a new Congress."

While Bush reshapes his economic agenda, some Republicans worry that he may overplay his role as foreign-policy maven. At the urging of campaign czar James A. Baker III, Bush is laying out a complex rationale for his four-year fling with foreign affairs. Now that Bush has won the cold war,

the new line goes, he can turn his organizational genius to a Domestic Desert Storm that will target festering domestic ills. And Pax Bushiana will open new trade opportunities in the Western hemi-

ad depends on fostering these fears about the Democrat:

CRIME

backs a tough crime bill that expands penalty. Wimpy Democrats oppose it. g dealers who peddle their wares to Republicans want to lock them up and they. Guess who doesn't? Democratic permissiveness would let criminals run wild, declare peace on drugs, and turn the U.S. into Woodstock Nation. Bolt your doors, America



about all those tax hikes he signed? Here's Bill Clinton's Arkansas: a place where folks walk barefoot, indoor plumbing is considered a luxury, and the rivers flow with chicken guts. We'll say it one more time: Our worthy Democratic opponent is the failed governor of a small state

ARKIE ANGST

In 12 years in Arkansas, Clinton has failed to do any of the cosmic things he's promising to do for America. And what

BIG GOVERNMENT

The GOP line: down with federal intrusion, up with individual choice. Clinton talks about "putting people first," but the folks he means are



bumbling Beltway bureaucrats. Take his health plan: It's a KGB-style dose of socialized medicine. Want your appendix removed? Take a number, comrade

sphere. The payoff: jobs, jobs, jobs.

On the stump, Bush will trumpet the North American Free Trade Agreement linking the U.S. with Mexico and Canada. But in the key states of the industrial Midwest, NAFTA triggers anxiety about job losses. The pact's benefits may not show up for years. "We're on the worst side of the sound bite," concedes U.S. Trade Representative Carla A. Hills. "It takes a lot of words to explain how this agreement will increase jobs."

That doesn't mean the President will just be firing blanks when he gallops out of Texas. Clinton remains vulnerable on the character issue and his record as Arkansas governor. And it won't take much prompting to make many voters uneasy about his plans to hike taxes on the wealthy to pay for a \$200 billion construction program.

As long as the economy keeps Bush on the defensive, though, his survival rests almost solely on continuous Clinton-bashing. Some of the fiercest thrusts will try to portray Clinton and running mate Al Gore as social and economic radicals. In Houston, the duo was savaged for backing gay rights, cherishing "insects, rats, and birds" over U.S. jobs, and hawking an economic plan that will turn the middle class into serfs.

CENTER STAGE. Even some Bush officials wonder about those fulminations. "I don't think Bill Clinton is Jimmy Carter," says Kemp. "If anything, he has taken some themes from John Kennedy. The election won't be decided by calling Clinton a big-spending liberal, but by saying what we're for."

Indeed, Clinton has done a good job of occupying the political center. He wants welfare recipients to work, vows to hire 100,000 new cops, spouts a hawkish line on Bosnia and Iraq, and supports the death penalty. Says Karlyn H. Keene, a polling specialist at the American Enterprise Institute: "These guys don't look like extremists. The Bush people will have to be careful."

But with his Presidency on the line, George Bush has little choice but to flail at Clinton in hopes of landing at least one solid blow on the elusive Arkansan. Bush may yet find his lethal weapon in the dusty record bins of some obscure Arkansas agency. But if Houston is any indication, all he has so far is trusty companion Jim Baker at his side, a few barbed one-liners—and hints of a second-term agenda that may strike many voters as too little, too late. "Baker's good," sighs one top GOP strategist. "But there really hasn't been a Miracle Worker since Patty Duke grew up."

By Lee Walczak, Douglas Harbrecht, and Howard Gleckman, with Amy Borrus, in Houston

THE PRESIDENCY

A CONFEDERACY OF DOUBTERS

Bush can no longer count on the Solid South to win the White House

Four years ago, George Bush looked to Dixie and inhaled the sweet magnolia scent of victory. Heavy with conservative voters, the Solid South was the anchor for Bush's huge electoral majority. Campaign manager Lee Atwater, who worried about Bush's weakness in the Northeast and Far West, dubbed the region a "Southern firewall." But Atwater is dead now, and Bush's populist allure in the South seems to have faded, too.

Even the white, male Southerners who voted overwhelmingly for Bush in 1988 are peeling away. Take Mark Baxter. He has given Republicans his vote in each Presidential election since 1980. But this year, Baxter, a barber in the Atlanta suburb of Stockbridge, is ready to do something he couldn't have imagined a few years ago: vote Democratic.

With the economy crawling along, Baxter, 34, is furious at George Bush. He fumes over the President's 1990 flip-flop on taxes. And he's dismayed by the President's policy paralysis and finger-pointing at Congress. "Bush gets on a soapbox but never takes any action," complains Baxter. "He's lost touch with Middle America, the people who foot the bill for everything."

At Baxter's barber shop, Bush's rotten economy is Topic A. "So many people tell me that they're worried about losing their jobs," Baxter says, "and that worries me." Baxter has seen competitors go out of business, and he's struggling to make payments on a barebones medical insurance policy. It's enough to make even a dedicated Republican think again: "Maybe it will be good to get a Democrat this time."

'BIG HOLES.' Suddenly, the President is finding in the South the same tough slog that awaits him elsewhere. To the dismay of Republican strategists, Bill Clinton has managed to seize the lead in most every state of the Old Confederacy—and the border states, too (map). A recent *Houston Post* poll of likely Texas voters helps explain why. Most Southern voters agree with the President on such issues as a constitutional balanced-budget amendment and congressional term limits. But they're far closer to Clinton on the issues most important to them:

the economy and health care. "If [Bush forces] view the South as a firewall, they have some big holes in it," crowns Craig Smith, one of Clinton's national field directors.

Among the biggest breaches in the GOP's Southern edifice: prochoice Republicans and independent suburbanites. "George Bush has let me down to the point where he can't" make amends, says Darlene Murner, owner of Randall's Cafe in Heflin, Ala., and secretary of the Cleburn County GOP. Upset about Bush's abortion stance and convinced that he won't say anything to win, Murner flirted with Ross Perot's independent candidacy. Now, she's impressed by some of Democrat Bill Clinton's economic proposals and by running mate Al Gore.

Winning back the likes of Baxter and Murner is crucial to Bush's come-from-behind strategy. "If we begin to lose some states in the South, we're in deep



SOUTHERN VOICES



★ **Darlene Murner, Heflin, Ala.:** "George Bush has let me down to the point where he can't" make amends

able," says North Carolina GOP Chairman Jack Hawke, who pledges Clinton would win his state if the election were to be held there.

BABY. To get a sense of Bush's South-discomfort, take a look at his first destination after the GOP convention. Rather than jet to California, he will head to Dixie to shore up his base. Bush's early-August journey into the region was star-crossed. A July campaign speech in Jacksonville, Fla., was overshadowed by

the July Campaign Manager Mary Matalia's churlish blast at Clinton's personal life. When the smiling President waded into a Dalton (Ga.) crowd and hoisted a flag, the tyke burst into tears. There were more cheers than tears four years ago, as Bush piled up landings across the South by winning up to 70% of the white vote. But these days, popularity ratings are as depressed as the local economies. From small-town shops to suburban malls, the President is being hurt by a ferocious, widespread backlash against incumbents.

After serving as willing soldiers of the Reagan Revolution, many white South-

erners are contemplating a return to their Democratic roots. Four years ago, Dianne Smith, a credit manager at Shaw Industries, a Dalton (Ga.) carpetmaker, rejected Michael Dukakis as too liberal. Now, she's close to abandoning Bush. "He's trying to shift all the blame onto Congress, but if they do anything, he vetoes it," she says. Bush's convention-week pledge to rededicate himself to economic growth comes "a little bit late" for Smith's liking. "Everybody wants a change," she notes. "With two Southern boys running, I just can't see [the South] going Republican this year."

Although Bush could still patch it up,

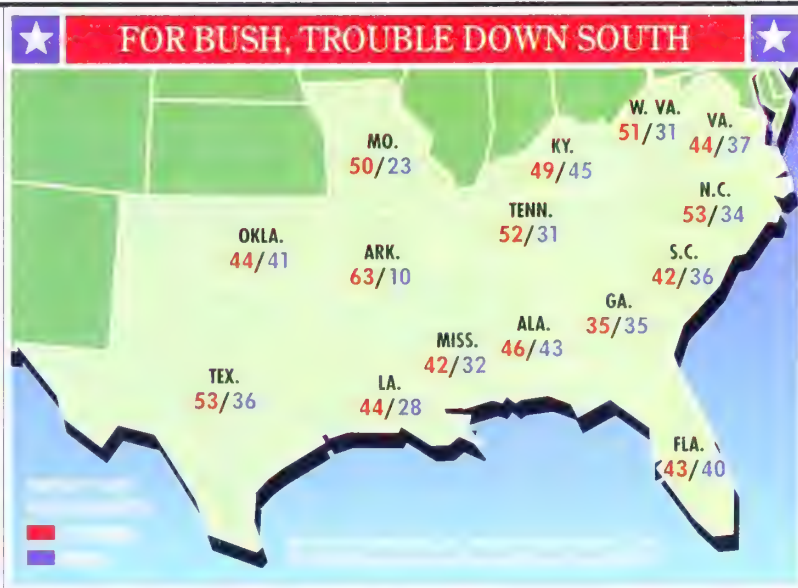
the way Yankees Dukakis and Walter Mondale did. "Clinton seems more down to earth, more sincere," says Tonya Haynes, a student at Gadsden (Ala.) State Community College. Adds Merle Black, an Emory University political scientist: "Clinton and Gore are precisely the kind of [moderate] Democrats who regularly win governors' races in the South."

As bleak as things now look below the Mason-Dixon line, there's still time for Bush to turn them around. At the convention, the GOP painted Clinton as a soft-on-crime liberal who flouts traditional values and aims to raise taxes. Bush partisans feel the attacks will turn the tide. "When people in the South start seeing what Clinton is really about, they are going to be turned off," predicts Florida GOP Chairman Van Poole.

Moreover, many white Southerners retain a fondness for Bush. And despite the poor economy, those voters are drawn to the GOP's patriotic appeals and the party's antitax, anti-Washington stance. "I sincerely believe he's trying," says Ron Harrison, general manager of Sunny King Ford in Anniston, Ala. "Mr. Bush has made some unpopular decisions, but he has the best interests of the country at heart."

HOOVERISMS. Bush also has a crucial base among Christian fundamentalists—though many prefer Vice-President Dan Quayle's more consistent devotion to social and fiscal conservatism. Bush's no-tax pledge was "a big mistake," says Charles McHargue, who with his wife, Becky, owns the Christian Supply Shoppe in Kannapolis, N.C. "I'm going to vote for Quayle. Other than that, I'm not voting for anybody."

But even many Bible Belt voters are more worried about the economy than social issues this year. "Abortion is one of the major considerations for me," says Julie Logan, a prolife college stu-



Ron Harrison, Ford dealer in Anniston, Ala.: "Mr. Bush made some unpopular decisions"



Charles McHargue, and wife Becky, Kannapolis, N. C.: Bush's no-tax pledge was "a big mistake"

dent from Jacksonville, Ala. "But I won't base my decision solely on it. Our economy has gotten worse instead of better." Logan, who helped distribute Bush literature four years ago, is now sizing up Clinton. "I'm ready for change," she says.

So are other white Southerners once captivated by the Republicans' hard-line stance on race, crime, and foreign policy.

Bush's Hooveresque admonitions to Americans to pull up their socks and weather the economic storm have revived the specter of the country-club GOP. "In the Bush Administration, Southerners have seen a reversion to the traditional policies they see as beneficial, to upper-income people and big business," says Charles Elliott, a political scientist at East Texas State University.

With tough Texan James A. Baker taking the helm of the Bush campaign, the President's backers hope that Southern rebound will start soon—a signal the rebirth of Bush's reelection hopes. But as the Bushies survey dismal poll numbers from Dixie, the rebel yell they're hearing is "Help!"

By Richard S. Dunham in Anniston, Ala., with Karen Thurston in Atlanta

Commentary/by Kathleen Madigan

MEMO TO JIM BAKER: KEEP ONE EYE ON WALL STREET

The best advice anyone could give James A. Baker III as he tries to jump-start President Bush's reelection campaign may well be this: Keep Wall Street happy.

If Baker's record is any guide, though, using him to calm the nation's financial markets during the ups and downs of the Presidential campaign is something akin to putting Mike Tyson in charge of a rape crisis unit. The problem? Despite ample personal experience, the former Treasury Secretary doesn't seem to grasp how easy it is to spook Wall Street.

Indeed, when Baker talks, the markets have a way of gasping. Take the reaction to his Aug. 13 farewell speech to State Dept. employees. In his remarks, which were offered just as the Treasury was auctioning \$10 billion in 30-year bonds, Baker suggested that lower taxes may be part of the Administration's second-term agenda. The GOP, he said, "should build on the fundamentals of lower taxes and limits on government spending."

That line, when carried over the financial wires, sent credit-market bears on a wild tear. Their worry? Lower taxes might beget bigger government deficits, reigniting inflation. That threat immediately sent the price of the 30-year bond plunging, lifting the yield from 7.32% to 7.41%. Rates have since dropped back a bit, but the credit market remains wary of the prospect of politically inspired budget-busting.

BIG 'GAFFE.' No question, Baker has had a success or two. The 1985 Plaza Accord, negotiated during his tenure at Treasury, is a feather in Baker's cap. It prompted

the seven major industrialized countries to coordinate intervention in the foreign-exchange markets. The pact marked one of the rare times governments set aside their parochial interests

and worked toward a common economic goal. And, by making U.S. exports more competitive via a lower dollar, it headed off dangerous protectionist legislation that was winding its way through Congress.

But that success seems to be the exception. In the fall of 1987, for example, then-Treasury Secretary Baker criticized Germany for raising interest rates, which had worsened the U.S. dollar's plunge. Baker responded by saying that the U.S. might have to lift its own rates to support the greenback. Those comments—coupled with Baker's proposed return to a "gold standard" for foreign currencies—sent a shudder through Wall Street. They're remembered still as one of the triggers of the October, 1987, stock market crash. Mickey D. Levy, chief economist at bond dealer CRT Government Securities Ltd., still thinks that Baker's pre-

crash remarks are "the most glaring gaffe of the century."

Baker's 1985 plan to deal with the Third World debt crisis also seemed ill conceived—at least as far as the financial crowd was concerned. The scheme called for more loans—including \$2 billion from commercial banks—to developing countries that, at the time, couldn't even pay the interest on their existing debt. Not surprisingly, banks balked at adding still more Third World loans to their portfolios. The initiative never got off the ground.

POOR GRADES. Then there was Baker's strong role in crafting the Tax Reform Act of 1986. The deal wiped out a host of tax breaks in return for lower rates, but failed to simplify taxpayers' lives. Nor did the Treasury under Baker do much about the mounting savings and loan crisis. In particular, in the summer of 1988, Baker deferred action until after the Presidential election. Earlier efforts probably would have reduced the bailout's \$500 billion price tag. Finally, White House insiders say Baker gave at least tacit approval to the 1990 tax hike that's causing Bush such grief now. Add it all up, and financial economists such as Mickey D. Levy rate Baker's tenure at Treasury as pretty poor.

As Bush's chief of staff, Baker knows that talk of lowering taxes and safeguarding Social Security plays well with voters. But he must bear in mind that anything smacking of still bigger federal deficits will be panned by investors. And while Wall Street may account for only a few thousand voters, its power over interest rates—and thus the economy—could make Baker's job of getting his boss reelected far harder than it already is.



AFTER BAKER TALKED OF TAX CUTS, 30-YEAR-BOND PRICES PLUNGED

THE GOP'S PARTY: NO HOMETOWN HERO, THE 'TORTILLA CURTAIN,' MILLIE'S MEMOIRS...



**LYN QUAYLE: HONORED
REPUBLICAN LAWYERS**

How bad have things gotten for George Bush? So bad that even the congressional district he once represented is displeased with the job he's doing. A pre-convention poll taken by the current representative of Houston's affluent west-side district, Republican Bill Aronson, found that voters disapproved of Bush's performance 57% to 43%. In 1988, Bush walked away with 77% of the district's vote. And the dislike is personal: Voters continue to give overwhelming support to such Bush positions as a balanced-budget amendment, a line-item veto, even aid to the former Soviet Union.

Aside from golf, one of Bush's favorite sports is entangling lawyers for entangling the country in a costly web of needless litigation.

Thanks to him, the GOP platform includes a detailed call for legal reform, including limiting punitive damages, discouraging damage suits by making losers pay winners' legal costs, and more use of arbitration. Republicans, it declares, will "put the interests of workers and consumers ahead of trial lawyers." But legal eagles haven't given up on the Quayle family. On Aug. 17, the Republican National Lawyers Assn. held a fete at Houston's posh Wyndham Warwick Hotel. Their guest of honor: Marilyn Quayle, a nonpracticing attorney. The Veep, meantime, dropped in on the Texas Public Policy Foundation—a conservative think tank—to receive its Abraham Lincoln Award for legal reform.

★ The Republicans went some distance in Houston to prove their claim to be the party of small business. At the Democratic powwow in New York, sellers of souvenirs and political memorabilia were relegated to a drab hotel ballroom far from the convention. The GOP, though, turned over a vast hall in the Astrodome complex to 200 vendors selling everything from encyclopedias to T-shirts proclaiming "Democrats: Too Much



Sex, Too Much Gore." Among the hottest attractions were cloisonné Republican elephants and Barbara Bush's *Millie's Book*.

★ With a tough race ahead, this is hardly the time for Presidential wannabes to be thinking about



**PHIL GRAMM: GETTING IN GEAR
FOR THE '96 CAMPAIGN?**

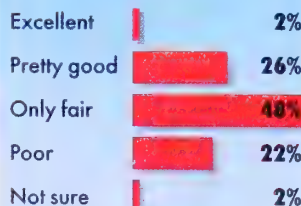
1996. But don't tell that to convention keynoter Phil Gramm (R-Tex.), who may have been the busiest man in Houston. The senator seemed to hit every delegation, caucus, and meeting in town—including lunch with the Iowa delegation and cocktails with New Hampshireites. Gramm insists his schedule had nothing to do with those states' role in selecting the first '96 delegates: "They're both states we have to win to win the election," he says. In fact, New Hampshire is a bedrock Republican state while Iowa is a near-lock for Bill Clinton. And after the convention, Gramm plans to barnstorm California, Kentucky, Ohio, and South Dakota—all, he claims, to campaign for Bush and Republican congressional candidates.

★ The Bush campaign hopes its tough stands on abortion and "family values" will win the votes of socially conservative Hispanics. But one line in the 130-page GOP platform could work at

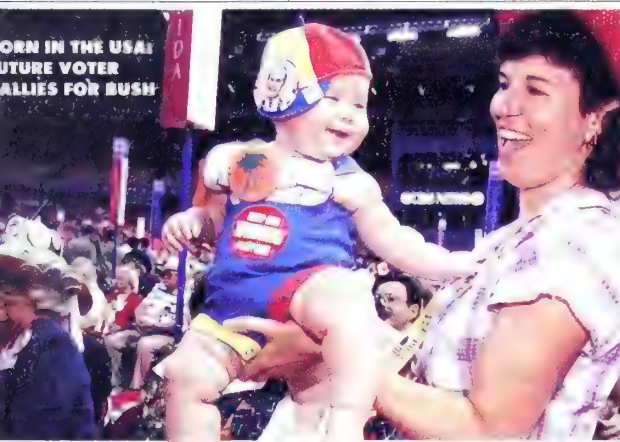
cross-purposes. It endorses the construction of "structures necessary to secure the border" from illegal immigration. Many Hispanics view this so-called Tortilla Curtain as racist, and political analysts predict that it will hurt Bush in the Mexican-American communities of California, New Mexico, and Texas. "The platform makes it far more difficult for Republicans to make inroads among the traditionally Democratic Mexican-American vote," says Jerry Polinard, a political scientist at the University of Texas-Pan American. The sour economy was already hurting the Republicans among Mexican-Americans. A recent *Houston Chronicle* poll showed Clinton leading among Texas Latinos by nearly 10 to 1. This cloud may have a silver lining: San Francisco pollster Mervin Field says Bush might offset some of his loss by tapping into the anti-immigrant sentiments of border state voters. But that's small consolation.

BYE, BYE BRADY?

George Bush seems on the right track with talk of new faces in a second term. BW asked 401 executives: How do you rate the President's team of economic advisers—Treasury Secretary Nicholas Brady, Budget Director Richard Darman, and Council of Economic Advisers Chairman Michael Boskin. Results, pretty much as you'd expect.



Survey conducted July 29-Aug. 6 by Louis Harris & Associates Inc.



**BORN IN THE USA!
FUTURE VOTER
ALLIES FOR BUSH**



CONSARC'S ROBERTS: "WE'VE HAD A VERY RAW DEAL FROM THE U.S. GOVERNMENT"

CAUGHT BETWEEN SADDAM AND UNCLE SAM

U.S. companies want to be paid for sales to Iraq before the war

Beginning in the early 1980s, the U.S. government encouraged American companies to do business with Iraq as part of a broader policy to aid Saddam Hussein in his war with Iran. But after Iraq invaded Kuwait, the companies were suddenly left with billions in unpaid bills. Even if Iraq had agreed to pay up, U.S. sanctions barred the companies from collecting on goods shipped or services rendered to Iraq before the August, 1990, invasion.

Now, those companies are accusing the Bush Administration of betraying them—again. They say the U.S. has failed to make good on promises to set up a compensation system funded with the \$1.3 billion in Iraqi assets that were frozen under the wartime sanctions.

PROMISES, PROMISES. Some companies are waging their battle in the federal courts, where they are arguing that they should be paid from the pool of frozen Iraqi assets. But both the State Dept. and the Treasury Dept.'s Office of Foreign Assets Control (OFAC), which handles the money, are vigorously trying to block the payments. "We think we've had a very raw deal from the U.S. government in multiple respects," says Raymond J. Roberts, president of Consarc Corp., a Rancocas (N.J.) engineering company that filed one of the suits.

Administration officials say deserving

U.S. companies will get paid—but not just yet. OFAC Director R. Richard Newcomb says his aim is an orderly and fair resolution of claims. OFAC has about 1,100 claimants seeking a total of \$6 billion—far more than the \$1.3 billion in frozen funds available.

Meanwhile, U.S. companies are upset by a payment that did sail through OFAC. The Treasury office allowed the U.S. Agriculture Dept. to issue \$416 million to Bahrain-based Gulf International Bank—a big lender to Iraq before the invasion. The money, which honored USDA loan guarantees, came from Agriculture funds, not the OFAC pool.

But the payment is controversial. OFAC has argued in the suits that the Iraqi sanctions bar transfers of cash if the Iraqi government has any interest in the money. And when the \$416 million was paid out, Gulf was 10.45% Iraqi-owned. That sparked a Mar. 30 inquiry by Senate Agriculture Committee Chair-

Only \$1.3 billion in Iraqi funds are frozen, but claimants seek a total of \$6 billion

man Patrick J. Leahy (D-Vt.). Agriculture responded a month later, noting that Gulf's board had extinguished Iraq's interest on Apr. 22. Both Agriculture and Newcomb have noted that OFAC determined in August, 1990, that Iraq's minority stake did not give it "ownership or control" over Gulf.

Consarc attorney Neil E. McDonough says that's not good enough. He says the money, at a minimum, should have been paid into a frozen account. Congress also has doubts about the payout. The House Banking Committee on Aug. 12 subpoenaed documents from Gulf regarding its Iraqi ownership. And the Senate Agriculture Committee is probing the transfer. Says Leahy: "We're continuing to investigate the legality and propriety of USDA's payments to GIB."

COURT ADVANTAGE? No wonder U.S. companies are looking to the courts. In September, 1990, Consarc sued an Iraqi ministry and bank over the busted sales of four industrial furnaces. After the Iraqis failed to appear in court, U.S. District Court Judge Stanley Sporkin awarded Consarc \$64.1 million. Rejecting Administration pleas, the judge in August, 1991, affirmed the award. He also barred OFAC from transferring to third parties \$6.4 million in frozen funds that Consarc is entitled to. OFAC is appealing.

In another case, Centrifugal Casting Machine Co. in Tulsa sued Iraq and others for access to \$2.7 million—downpayment for machinery made under a letter of credit issued by the Central Bank of Iraq. The case was settled, and the district court ordered the money disbursed over OFAC's objections. In June, a federal appeals court affirmed the order. The U.S. has declined to appeal.

Until recently, Iraq hasn't shown up in court, allowing the companies to win judgments by default. That's changing. In April, 1991, First City, Texas-Houston, won a \$53.2 million default judgment for unpaid loans. It's now seeking a partial payment of \$21 million in frozen assets. In a hearing set for Aug. 21, Edward Powers, a lawyer representing Iraqi-controlled Rafidain Bank, will seek to void the judgment. Powers says that Iraq has up to now ignored the claims against it because it had more pressing concerns and didn't think the suits would hold up.

Some lawyers are telling clients not to sue—that they'll do better waiting for OFAC to set up a claims procedure. Says Washington lawyer Joseph P. Griffith: "Our view is: Why spend all this money to fight the U.S. government?" The answer, again, it could be some wait. The U.S. still hasn't released all of the funds frozen during the Korean conflict.

By Michele Galen in New York, with Mike McNamee in Washington

THE LESSONS GM COULD LEARN FOR ITS SUPPLIER SHAKEUP

Not since Ralph Nader has one man so shaken Detroit. In the three months since he became General Motors Corp.'s global purchasing czar, J. Ignacio Lopez de Arriortua provoked anger and fear among U.S. automotive parts makers. Although unwilling to complain about a huge customer, suppliers speak vehemently in private. "You talk to someone on the phone, and it's as if a murderer were at the door," notes

David Cole, director of the University of Michigan's Center for the Study of Automotive Transportation. Auto-parts makers consider themselves competitive. But Lopez believes that they still have a long way to go. He has ripped up contracts and sought new bids for the parts GM buys. In one case, he broke a multimillion-dollar contract and put it out for new bids in three weeks. Suppliers that had invested in developing new products for GM were shocked to see the carmaker pass up their blueprints and go to competitors, asking if anyone would build the products for less.

ST HELP. Lopez mainly doesn't care about his popularity. His sole preoccupation is making GM's North American operations profitable again. Yet his methods are sowing discord among the very suppliers whose help he needs. Lopez would do well to study supplier relations at other carmakers, which aim to build long-term trust and cooperation (table). With a few changes in style, he might smooth ruffled feathers and still meet his goals. No U.S. parts maker denies the need to restore GM's competitiveness. The question is whether Lopez will cut the prices GM pays by squeezing suppliers' margins or by helping them cut costs. Lopez insists that he intends to do the

latter—wisely so, since only by cutting costs can suppliers sustain lower prices. The core of his strategy: PICOS.

PICOS, an acronym for Purchased Input Concept Optimization with Suppliers, involves sending teams of manufacturing engineers into supplier plants. There they root out waste, help install lean-production techniques, and generally cut costs. Lopez used PICOS teams with great success as head of purchasing for GM Europe, and started

Ill., improve its factory operations. After two years of Toyota-led changes, Flex-N-Gate has more than doubled productivity while cutting lead times 94%, inventories 98%, and defects 91%.

NO CODDLING. Toyota isn't one to coddle its suppliers. Inviting Toyota, or a GM PICOS team, into your plant is about as much fun as asking for an IRS audit. Yet Toyota workouts don't spook suppliers the way PICOS does.

Why? First, Toyota is the world's low-cost carmaker. Nobody doubts the competence of Toyota's manufacturing experts. The same can't be said of GM. Suspicions about GM's manufacturing skills are magnified by the widespread view that GM's own in-house suppliers are woefully uncompetitive.

Lopez can turn that skepticism to his advantage by launching a high-visibility PICOS makeover of one of his own shops. An ideal candidate is Saginaw Div., a top-notch outfit that sells steering gears and columns to carmakers worldwide. If a PICOS team can produce 50% improvements in inventory and productivity there, Lopez would quiet a lot of naysayers.

Second, suppliers are more eager to deal with Toyota because of an atmosphere of trust. They

know that Toyota is loath to dump a supplier for a lower price elsewhere. That's plainly not true of Lopez's GM. "The way this all got launched, there's a whole lot of distrust about what GM is doing," says Kenneth L. LaGrand, executive vice-president of Gentex Corp., a mirror maker in Zeeland, Mich.

Such comments reveal how Lopez, in his drive to yield immediate cost savings, has poisoned the atmosphere between GM and its suppliers. It may be time to ask whether the pollution is worth the price.



setting them up immediately upon his arrival in Detroit. PICOS teams in North America have visited 40 supplier plants already and plan to visit 355 by year-end. On average, they have yielded productivity gains of over 50%, reduced space needs on factory floors by 46%, and cut inventories by 48%, says Alan G. Perriton, a top Lopez aide.

In essence, the PICOS teams are the same as the supplier-improvement groups organized by Toyota Motor Corp. In a recent case, Toyota helped a U.S. supplier, Flex-N-Gate of Danville,

NOT QUITE A CASH CROP

Nervous American farmers are anticipating a big drop in income

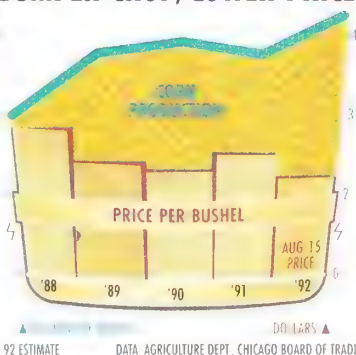
Never an optimistic lot, America's farmers this year may have more to beef about than usual.

True, the Agriculture Dept. on Aug. 12 said it expects bin-busting corn and soybean crops—despite problems with cold and rainy weather. But the huge harvests may not mean much to the growers. That's because rising costs, a decrease in government subsidies, a continuing downturn in livestock prices, and a drop in wheat, corn, and soybean exports will all combine to squeeze farm income. On top of that, the bumper crops are driving crop prices way down. Corn prices, for example, are expected to sink from their current levels of \$2.23 a bushel, which is already far below last year's \$2.51 (chart).

EARLY FROST? Add it all up, and the picture isn't pretty. Indeed, the Agriculture Dept. projects that farmers' cash income this year will drop to as low as \$51 billion, 18% below the record \$62 billion set in 1990. And that's the optimistic scenario: If an early frost hits and puts a dent in the government's huge crop forecasts, the income figures could be even worse—down by as much as \$2 billion from the official forecast, say some economists.

A drop in farm income would spell big trouble for agricultural-equipment mak-

BUMPER CROP, LOWER PRICE



92 ESTIMATE DATA AGRICULTURE DEPT., CHICAGO BOARD OF TRADE

ers, who already are suffering from a steep sales slide brought on by tightfisted farmers and an unsuccessful effort to raise prices by as much as 10% earlier this year. From April through June, a key selling season, domestic sales of large tractors dropped 50% from the year-ago period, while combine sales skidded 67%. The impact on Deere & Co., for one, has been dramatic. Alexander M. Blanton, an analyst with Ingalls & Snyder in New York, projects a 10¢ loss per share for the company this year, a sharp drop from the \$1 a share profit he foresaw at the start of 1992.

Meanwhile, the big harvests won't even provide comfort in the form of lower food prices for consumers. Farm costs make up only a thin slice of the price tags on grocery store items. If there is a silver lining to all these problems, it is that low prices promise big gains for such grain proces-

sors as Archer Daniels Midland Co. and privately held rivals Cargill Inc. and Continental Grain Co. Indeed, those companies are snapping up their raw material, such as corn and soybeans, at the lowest prices in four years.

LESS DEBT. Still, the drop in farm income isn't likely to set off a wave of foreclosures and bankruptcies similar to the one that took place during the mid-1980s. Learning from that sorry experience, farmers have trimmed their debt from the 1984 high of \$193.8 billion to just \$138.4 billion last year, a 29% drop. That means, even with incomes falling, farmers are looking at their strongest balance sheets in years. "The farmer may be in desperate shape. But the difference is that he has paid off his debts and doesn't have them hanging around his neck any more," says Daniel Basse, director of market research for Ag Resource Co. in Chicago.

Those balance sheets are so healthy that lenders are rushing back into the farm belt. In 1991, the portfolio of farm loans held by private banks jumped 6% to a new high of \$53 billion, with most of the increase attributable to real estate

IT'S NO PICNIC IN THIS COTTON PATCH

These are dog days in Corcoran, Calif., population 8,313. Shopkeepers say business has slowed to a crawl at R&M Drug on Whitley Avenue, the town's main drag. And down the block, the hamlet's only movie house has just shut down.

It is Corcoran's bad luck that its fortunes are tied to the 160,000 acres of adjoining cotton fields farmed by the nation's largest cotton grower, J. G. Boswell

Co. And after six years of drought, a worldwide glut in the cotton market, and depressed real estate values, times are tough for the closely held Boswell.

In a July 27 letter to shareholders, Chief Executive Officer James W. Boswell announced that the company will slash its dividend by 50%, to \$25 a share. "California is in the midst of its worst economic recession in over 60 years," wrote Boswell, who declined to be interviewed by BUSINESS WEEK.



BOSWELL: HURTING IN CALIFORNIA

Boswell's biggest problem is water prices. Cut back to only 45% of normal allotment of state water, the company has been forced to drill ever deeper for groundwater. That has doubled water costs during the past 18 months. And that, in turn, has added \$10

to its operating costs this year, the company says. Making matters even worse, cotton prices, depressed by bumper crops in the U.S. and Pakistan, are down to 57¢ a pound, the lowest level since

ns. And the government-backed Farm Credit System last year saw its first year-over-year gain in farm lending in nearly a decade. The upshot: Farmland values rose by nearly 2% in many parts of the Midwest early this year, reversing declines in the prior year. Indiana, Michigan, Illinois, and Iowa have shown particular strength, according to a recent study by the Federal Reserve Bank of Chicago.

What doesn't mean farmers are rushing to take on unnecessary debt. They're busy worrying. Just ask Leland Behnken, who says his 2,600-acre corn and soybean farm in west-central Illinois is surrounded by trouble. To the south and east, heavy July rains drowned out fields of corn in as much as 12 inches of water. To the northwest, late plantings have delayed the crop, Behnken says, putting farmers at risk for an early frost. Meanwhile, way out in California, six years of drought have badly cut into farmers' yields (page 30). "There's a good crop out there somewhere," the 66-year-old Behnken says. "But it's been a frustrating year for a lot of farmers."

GENERAL FUNDS. If a bumper crop does come in this year, it could be George Bush who ends up getting stuck with the excess. Bush will have to dip deeply into Uncle Sam's till if he wants to keep the farm vote happy by creating a market for the expected oversupply. His two alternatives—boosting exports with trade credits and paying out price supports—both come directly out of the U.S. Treasury.

"It's going to be interesting to see how the government responds to some potentially extremely low prices during election year with the President trailing in the polls," observes William Baird, director of research for agricultural consultant World Perspectives. But, already worried about an early frost and their disappearing hopes for higher income, farmers wince at the thought of another "interesting" year.

By David Greising in Chicago

I had hoped to bolster its balance by selling some of its vast San Valley holdings. Potential buyers, however, have not been able to get going.

In Corcoran, Boswell has stopped buying new tractors and other equipment, cutting city sales-tax revenues to just 10 this year, down from more than 20 in 1991. And unemployment in the 25%. City Manager Donald Pauley fears rumors are swirling that Boswell will slash management jobs. That's bad for the managers and more bad luck for Corcoran.

By Eric Schine in Los Angeles

TAXES

CONGRESS CAN'T SAVE MONEY, BUT IT WANTS YOU TO

A Senate tax bill would make IRAs and 401(k) plans more alluring

Ask any economist, and you'll hear how to save. During the past decade, American families put money aside at just half the rate they did during the 1960s and 1970s (chart). During all that time, Congress has been struggling to boost private savings. Now, in the tax bill working its way through the Senate, lawmakers have cobbled together two proposals they hope will do the job.

The idea getting the most attention is a proposal by Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) and Senator William V. Roth Jr. (R-Del.) that would beef up individual retirement accounts, the savings plans that were sharply limited by the 1986 tax reform act. But another proposal, to boost 401(k) plans, could provide a bigger kick.

LIMITS. The IRA proposal, somewhat trimmed back from its original form, would provide extremely generous tax benefits for some savers. IRAs now are limited to individuals earning less than \$25,000 and couples earning less than \$40,000. Under the Senate plan, they would be available to individuals earning as much as \$90,000 and couples earning up to \$130,000. More important, the bill would restructure the savings account. Under the traditional IRA, contributions are tax deductible when they are made, and earnings are tax-deferred until they are withdrawn. Under the Senate measure, savers could choose to pay tax on their contributions and avoid all taxes on withdrawals made after five years.

These "back-loaded" IRAs are far more generous in the long run. But they have one big problem: Many economists say that the middle class isn't likely to

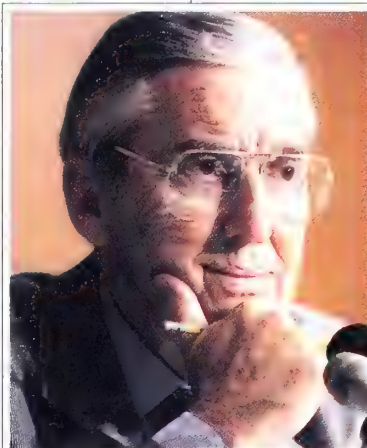
participate. "I don't like back-loaded IRAs," says National Bureau of Economic Research economist Jonathan S. Skinner. "You have to give the front-loaded inducement to attract people who otherwise wouldn't save." That means participation in the new IRAs mostly would come from savvy investors who would merely shift savings to take advantage of the tax break.

That's why 401(k)s could provide a bigger bang for the buck. The plan's great advantage is that automatic payroll deductions encourage thrift: People can't spend what they don't take home. In 1988, the last year for which statistics are available, 15 million people contributed nearly \$40 billion to 401(k) plans—as much as had ever been saved annually in IRAs. And participation has continued to zoom: Putnam Cos., a big Boston fund manager, estimates that the 401(k) business is growing by 15% to 20% a year.

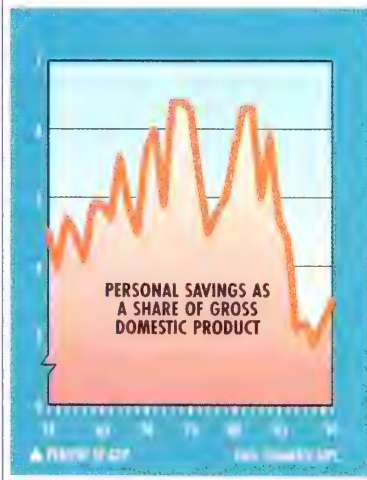
But many middle managers are barred from contributing as much as they would like, because their employers run afoul of Internal Revenue Service rules designed to protect lower-paid workers. The Senate wants to broaden participation by easing those rules. It would

allow highly paid workers to contribute the maximum \$8,728 a year, as long as their employers matched the first 3% of participating employees' salaries.

HIGHER COSTS. The employer match seems to be a key to getting more highly paid workers to participate. Aggressive education may be the secret to building interest among lower-paid workers. Chevron Corp.'s participation rate is 90%. Benefits manager Alex G. Ross says that is partly because the company



UNDER BENTSEN'S PLAN, IRAs WOULD BE AVAILABLE TO MORE PEOPLE



Top of the News

publishes a newsletter that helps explain the investment world, and has begun installing electronic kiosks at work sites where employees can check on their accounts. "The communication aspect," Ross says, "is absolutely key to the success of this plan."

Of course, pulling more workers into 401(k) plans will cost business more, especially if tied to a company match. And

that has some companies worried. Alpha Industries Inc., a Woburn (Mass.) semiconductor maker, has doubled its participation rate to nearly 70% by instituting a \$500 match and an aggressive education plan. But 3% is a bit steep. "We'd like to if we could afford it," says Chief Financial Officer William A. Krein.

The proposals could also prove expensive to the government: Many econo-

mists say these ideas won't encourage enough private savings to offset the tax revenue they cost the Treasury. Yet for Americans who didn't salt much away during the 1980s, the new saving plans—particularly the low-profile 401(k) plans—would prove a welcome boon.

By Howard Gleckman in Washington with Mark Maremont in Boston and Russell Mitchell in San Francisco

TOURISM

BON VOYAGE TO THE QUEEN?

The Queen Mary is for sale—and proposals run the gamut

It fits, somehow. Cunard Line Ltd.'s legendary Queen Elizabeth 2, now in its 25th year, ran aground in a channel near Martha's Vineyard on Aug. 7, landing the luxury ocean liner in dry dock for a month or more. Meanwhile, another Cunard ship, the Queen Mary, which hasn't sailed in 25 years, is dangerously close to coming unmoored.

On Aug. 24, bidding for the Queen Mary will close, sealing the fate of the venerable lady that has become the symbol of California's City of Long Beach. City elders have been trying to figure out what to do with the stately icon ever since Walt Disney Co., which operates the ship as a floating hotel and tourist attraction for the city, announced in March that it would invoke a contractual escape clause. It walks away from its money-losing, 55-year lease at the end of next month. "For 25 years, it has been a financial elephant around our necks," says Mayor Ernie Kell, who wants to sell the ship. "And if Disney can't make it work, I don't think anyone can."

BALLOT TEST. But the Long Beach City Council wants to keep old Mary, and it has even engineered a way to put the question to the public. A study commissioned by the city suggested these alternatives for the ship: sink, scrap, or sell it—or allow gambling aboard, which would generate enough revenue to ensure profitable operations. As a result, the city's November ballot will include a measure that would authorize a card casino. "You don't have many poker advocates in Long Beach," says Councilman Warren Harwood, "but you have a lot of Queen Mary advocates."

The question may be moot if the city can sell the ship—which could happen. Laughlin (Nev.) gaming czar Don Laughlin is rumored to be interested in towing Mary to Gulfport, Miss., to be



FRESH WAVE: CUTTING THE TOUR PRICE TO \$10 HAS HELPED BRING VISITORS BACK IN DROVES

the centerpiece of a casino and convention complex he would like to build there. A Japanese group, hoping to skirt Tokyo's exorbitant land prices, wants to anchor the ship in Tokyo Bay and use it as a hotel. "The rooms are on the small side," says Kell, "but so are most hotel rooms in Tokyo."

At least one bidder thinks he can make a go of it in Long Beach. Joseph F. Prevratil ran the Queen Mary from 1981 until his employer, Wrather Corp., was sold to Disney in 1988. "We used to throw off \$5 million to \$7 million a year in positive cash flow," he says. Prevratil, now an independent contractor and project manager for the \$95 million expansion of the nearby Long Beach Convention Center, is readying his bid.

Disney's desertion couldn't have come at a worse time for the city. Southern California is mired in its worst recession in 60 years, and Long Beach has been

particularly hard hit. The U.S. Navy is shutting down its base and hospital there, and there's talk of turning the hospital into a prison. Its shipyard is still operating, but even that's in trouble as the Navy funnels more business to competing facility in San Diego. McDonnell Douglas Corp., by far the city's largest employer, has slashed its workforce to 36,000 from 53,000 two years ago, and the company said in July it would release an additional 4,000 to 5,000 workers by the end of the year.

WALKING THE PLANK. Meanwhile, tourists have started showing up at the Queen Mary in droves again—some because Disney has slashed the admission price to \$10 from \$17.95, others to pay their last respects. Older visitors return to commemorate long-ago transatlantic crossings. Younger ones climb the gang plank to relive memories of wedding banquets or prom nights.

All the hubbub seems to have given Long Beach officials new hope, and a plan unveiled this month for the redevelopment of the city's waterfront could be revamped to include a berth for the noble cruise liner. If not, one wag suggests, it could always be towed to the waters off Martha's Vineyard, a permanent buoy to keep the QE2 off the rocks.

By Larry Armstrong in Los Angeles

One group, hoping to skirt Japan's land prices, wants to anchor the ship in Tokyo Bay and use it as a floating hotel



GUESS

EDITED BY DEIDRE A. DEPKE

A BURGER, A COLD ONE, AND THOU

Can't afford a baby-sitter? A night at home isn't necessarily cheap. Here's what it costs, in various parts of the country, to buy McDonald's Quarter Pounders with cheese for two, a six-pack of either Budweiser or Miller Lite, and a new Monopoly board game

City	Cost
New York City	\$27.44
Anchorage, Alaska	26.69
Tulsa	18.42
Orlando	17.97
Cleveland	17.57
Median price in 286 cities	18.53



DATA: ACCRA

CUTTHROAT FARES CUT INTO AMERICAN

► Just when it seemed that airline industry news couldn't get any worse, AMR, parent of American Airlines, announced on Aug. 19 that the carrier's third-quarter losses will top the \$48 million it lost before special charges in the second quarter. Some analysts had expected AMR to report slim profits in what is normally the industry's peak season.

But thanks to the airlines' fare war this summer, the industry's operating loss for the third quarter could approach \$500 million, says analyst Samuel Buttrick of Kidder Peabody. While American's low prices have resulted in traffic records for the Dallas-based airline, the fares aren't covering rising costs. In the

third quarter of 1991, American earned \$70.3 million, or \$1.02 a share.

AIR CANADA AND UNITED MAKE A DEAL

► Canada's two major airlines are once again looking south of the border for help in resolving their own mounting financial problems. For a while, it seemed Canada's two airlines would merge. But those talks died on Aug. 14, when Canadian Airlines International rejected an Air Canada offer that would have given the larger carrier 60% control over the merged company.

So on Aug. 18, Air Canada announced a deal with United Airlines that has the two carriers, among other things, coordinating their schedules and combining frequent-flier programs. Meanwhile, Canadian is scrambling to raise the financing it needs to reopen negotiations with American. American might be interested in a 25% stake in Canadian.

WANG TELLS IT TO THE JUDGE

► Thrashed by crushing computer competition and \$1.3 billion in debt, Wang Laboratories cried uncle with a Chapter 11 bankruptcy filing on Aug. 18. Chairman Richard Miller, the turnaround specialist hired in 1989 to revive the

GERALDINE, WE HARDLY KNEW YE

Massachusetts, the only state to back the Democrats in 1972, still talks about George McGovern. And some folks in Orange County, Calif., haven't yet recovered from Barry Goldwater's 1964 loss to Lyndon Johnson. Those disappointed voters might find comfort in *Alternate Presidents*, a collection of 28 short stories detailing what might've been had the other guy won.

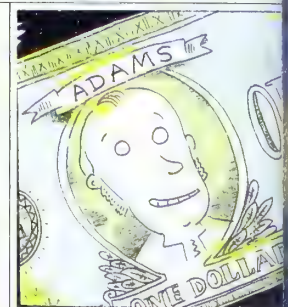
In this version of history, rushed into print in February for the 1992 race by Tor Books, a division of St. Martin's Press, Abraham Lincoln lost the 1860 election and went on to become a great general of the Civil War. President Goldwater nuked Vietnam. And Adlai Stevenson's vice-president, John Kennedy, was the butt of frequent jokes after he married a Hollywood actress. (The new Monroe Doctrine: "Ooh, ooh, aaaahhhhh") Tor, in fact, had so much stuff on the first family of Hyatt that in July it printed a followup book: *Alternate Kennedy*.

Lowell (Mass.) company, blamed a 1980s debt binge that left no way to escape a bankruptcy reorganization.

Wang plans a reorganization that will cut revenues to \$1.4 billion, from \$1.9 billion this year, and slash 5,000 jobs. Miller warns that Wang's \$141 million fiscal 1992 operating loss may balloon.

MORE FISTICUFFS AT PHAR-MOR

► Deep-discount drug retailer Phar-Mor, hobbled by charges that two senior executives engaged in fraud and embezzlement leading to a \$350 million



write-off, made its own Chapter 11 filing on Aug. 17. The 300-store chain won court approval to spend \$50 million in cash that had been collateral for its lenders. Antonio Alvarez, interim chief financial officer, says that's enough to operate while Phar-Mor tries to develop a game plan for the Christmas season.

Meanwhile, the legal battle over who gets the blame for Phar-Mor's troubles has begun. Phar-Mor sued former auditor Coopers & Lybrand, accusing it of negligence in failing to uncover the fraud. C&L filed a countersuit.

NEW CLIENTS FOR IBM AND BRITISH TELECOM

► Two of the world's technology giants, IBM and British Telecommunications, announced big deals on Aug. 19 in the hot field of "outsourcing"—running the voice and data networks for companies that would rather focus their efforts on building cars or baking cookies. In a deal estimated at \$10 million over three years, British Telecom signed up BP Chemicals as a client. IBM, meanwhile, allied with Sears Roebuck to form Advantis, a joint venture to sell outsourcing services.



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The printer with a splitter

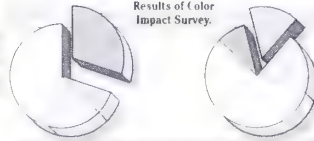


BLACK & WHITE

Conspicuous
Consumption
The impact of wealth
You can't see it, but you can feel it.

The movie industry was born and raised in black & white. And many would say that the greatest moments in film came before it migrated into a full-blown, full-color medium. Without titles and covers and hi-tech special effects, the impact of the classic black & white films came from dramatic cinematography, inspired screenwriting and acting.

Results of Color Impact Survey.



Category	Color	Black & White
Entertainment	75%	25%
Advertising	65%	35%
Healthcare	55%	45%
Retail	45%	55%
Computer	35%	65%

SPECTRUM
ANNUAL REPORT

personality.



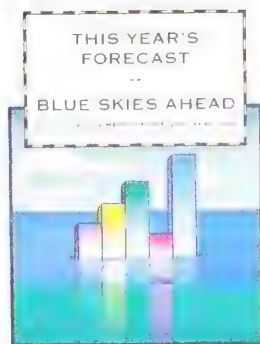
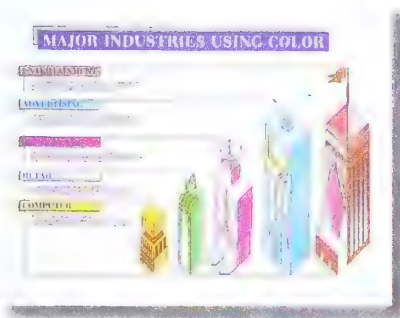
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MEXICO

'FREE TRADE ISN'T PAINLESS'

Mexico celebrated NAFTA early. Now its economy has a hard climb

This was the moment Mexico had been waiting for: its debut in the First World. After 18 months of up-and-down negotiations, a beaming President Carlos Salinas de Gortari appeared on nationwide television on Aug. 12 and triumphantly raised a weighty tome, the completed North American Free Trade Agreement. Was there a carnival of mariachis in the streets? Hardly. Within two days, the limp Mexican stock market slumped an additional 2%.

The Mexicans, it seems, enjoyed their free-trade fiesta last year. As foreign investors poured dollars into the booming Mexican market, south-of-the-border companies strutted confidently down Wall Street, raising billions in debt and equity. They exulted in the long-term potential of free trade: job creation, foreign investment, bigger markets, better infrastructure, and a higher standard of living at home. But the party fizzled out last spring, when the overheated Mexican market started falling.

Now, Mexican companies realize just how much short-term pain there will be before the long-term gain. Once the trade agreement goes into effect, they will have to compete head-to-head with U.S. and Canadian powerhouses, from American Airlines Inc. to Anheuser-Busch Cos. "Free trade isn't painless," says Lorenzo Zambrano, general director of the Monterrey cement giant, Cementos Mexicanos.

It won't be all roses for Salinas, either. Massive imports of everything from Oreos to Alpo are building up a record trade deficit (chart). Attracting foreign cash to finance the buying binge could be tough if the stock market falls further. What's more, emboldened by free trade, Mexico's low-wage workers are striking for

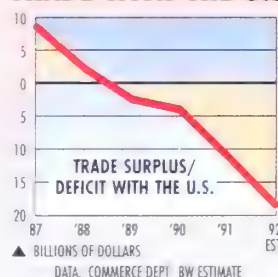
higher salaries, most recently at Volkswagen and General Motors Corp.

Although NAFTA has not yet been signed, corporate Mexico is already getting a strong dose of the short-term discomforts that come with free trade. Take the airlines. With the skies opening over Mexico, the country's two airlines are feeling the pressure as American Airlines and United Airlines Inc. bulldoze their way southward. To survive in this new world, the Mexicans are scurrying for alliances with U.S. carriers—Aeromexico with U.S. West and Mexicana de Aviación with Continental Airlines.

THE VULNERABLES. Many of Mexico's other big companies are also linking with partners north of the border, from Wal-Mart Stores Inc. to General Electric Co. But thousands of small Mexican companies are vulnerable. Technologically backward, they hold scant appeal for U.S. partners. Worse, they're locked out of foreign money markets and must pay 20%-plus interest on peso loans. Even more daunting, when free trade kicks in,

foreigners will be able to snatch a growing share of the government contracts that keep many smaller companies afloat. "I tell these companies: 'You are going to have to move fast to modernize,'" says Finance Secretary Pedro Aspe. "They can't afford to wait."

MEXICO'S LOPSIDED TRADE WITH THE U.S.



he pain from Mexico's import
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h month, more petrochemical plants
Mexico's Gulf Coast shut down, un-
e to compete with cheap imports.
ng the crowded sidewalks in Mexico
r's colonial downtown, eager custom-
sift through piles of cheap Asian
ments dumped into Mexico through
U.S. But in nearby Puebla, textile
ats are shuttered. State companies,
are cutting back. Thousands of
kers laid off from state oil monopoly
nex recently marched to protest but
to avail.

Suspicion. While companies scrounge
capital, they also confront an in-
creasingly restive work force. This is es-
pecially so in Mexico's booming auto in-
dustry. There, strikes recently shut
down two export operations, GM's prize-
winning plant in Ramos Arizpe and
Volkswagen's complex in Puebla. Mexi-
can officials suspect that U.S. unions
are quietly helping Mexican unions.

One motive, the offi-
cials say, is to raise the
cost of building cars in
Mexico, where compa-
nies save an average
\$100 per vehicle, and
this is to slow the indus-
try's march southward.
"We don't have direct
evidence of this," says
President Salinas. "But
there are grounds for
suspicion." A spokes-
man for the United
Auto Workers in De-
troit says his union has
provided financial aid to
unions in Mexico but
is not organized any-
where else.

Still, Mexicans have
many reasons to feel
confident. The federal
budget, a disaster just a
few years ago, now boasts a surplus,
thanks to debt restructuring and sharp
cuts in subsidies. The President's politi-
cal footing, which seemed shaky when
he took power in 1988, is now rock-solid.
Massive infrastructure projects, includ-
ing an ambitious network of private toll
roads, link Mexico to the U.S. market—
and spell big contracts for local cement
and steel companies.

Salinas thinks NAFTA will become law,
no matter who wins the U.S. Presiden-
tial election in November. "It is in-
evitable," he says. And most Mexicans
agree that NAFTA gives the country a
once-in-a-lifetime chance to join the in-
dustrialized world. But, for now, they're
tumbling. After last year's party, all
anyone can see for the year ahead is a
grim, hard climb.

By Stephen Baker in Mexico City

TRADE

WHY SOME ASIAN COMPANIES ARE GUNG HO ABOUT NAFTA

The savvy ones see new investment opportunities in North America

The agreement by the U.S., Canada,
and Mexico to establish a North
American free-trade zone touched
off predictable protests throughout the
world, notably in Asia. Japanese auto
makers, whose North American assem-
bly plants face higher domestic content
standards, were especially noisy. "We're
concerned, definitely," says an official at
Toyota Motor Corp. "It will have an ad-
verse effect for Japanese carmakers in
North America." Other Asian govern-
ment and industry leaders professed
concern that industrial investment could
shift from their countries to Mexico.

U.S. is getting more protectionist," he
says. "Our exports there are falling."

Japanese giants are on the move as
well. Hitachi Ltd. is shifting production
of VCRs from Anaheim, Calif., to lower-
cost Mexico and Malaysia—although it
says the decision is not related to NAFTA.
With the elimination of duties on goods
from Mexico, Nissan Motor Co. sees
fresh opportunities for efficiencies in the
new integrated market. It expects to
eliminate duplication between its Ten-
nessee and Mexico plants. Giant trader
Sumitomo Corp. is considering an "inte-
grated approach" to North America.

One possibility, says a
spokesman, is to con-
solidate U.S., Canadian,
and Mexican subsidiar-
ies under one executive.

DISTANT THREAT. Hong
Kong companies are
also ready to cash in on
NAFTA. Officials there
say the adjustment will
be easy because their
strong suits—textiles,
consumer electronics,
and toy factories—are
relatively cheap to set
up. "We have gone off-
shore in Thailand and
offshore in China, so
why not go offshore in
Mexico?" says a Hong
Kong trade official.

For a few Asian
countries, NAFTA is, at
worst, a distant threat.

Taiwan, for instance, isn't worried that
Mexico can lure away its high-tech and
services business for many years. Nor
can Mexico compete with such countries
as Indonesia and China when it comes to
low labor costs.

There will be adjustments. Toyota
may have to build another engine plant
in the U.S. to meet the new 62.5% local-
content rule. That could cost \$560 mil-
lion, say industry insiders. Most large
Asian companies have seen the new mar-
ket coming and have been restructuring
strategies accordingly. "In a sense,
NAFTA is designed to stabilize something
that already exists," says Stephen
Blank, director of Canadian affairs at
the Americas Society in New York. Few
companies could complain about that.

*By Robert Neff in Tokyo, with bureau
reports*



BUILDING
NISSANS IN
MEXICO

But a lot of the complaints ring hol-
low. As long as it doesn't turn protec-
tionist, the North American Free Trade
Agreement offers at least as many op-
portunities as headaches. Already, compa-
nies throughout Asia are mapping
plans to take advantage of the vast new
market by boosting investments there.

South Korean officials, for example,
are urging their companies to start in-
vesting in Mexico. "Companies should
study carefully how they can benefit
from combining the strengths of Korea,
Mexico, and the U.S.," says Yu Deuk-
Hwan, the assistant minister for trade.
Korea may adopt such incentives as tax
concessions and elimination of barriers
to raising money overseas. President
Yoon Young-Suk of Daewoo Corp. sees
good reason to put electronics assembly
plants in the new North America. "The

(WHEW!)



AT&T 800 Service offers so many protective features that you'll never have to worry about your 800 service again.

It's the most reliable 800 service out there. No matter what your business' size or needs, we have special features designed for the way you do business; features that keep your customers' calls coming in, no matter what.

As an AT&T 800 Service customer, you automatically get two remarkable features built into the service. With our new FASTARSM technology, in the event of a network cable cut, we can get your calls to you in a matter of minutes, instead of several hours. To protect you against any other disruptions (including ones caused by your own equipment), you also get the AT&T 800 Service Assurance Policy.

Because every business has different needs, we offer a whole variety of optional features, too. That way, we can custom-design an 800 service specifically for the way you do business, to make sure your 800 calls get through.

For example, you could be missing

customer calls after hours or during your busiest time of the day, and not even know it. For businesses like that, we have features that will automatically send your 800 calls to another location at a prearranged day or time (e.g., your office closing time). And others that let you change where your calls go in minutes.

For larger businesses that need all the backup they can get, we have features that can actually reroute traffic within seconds for the ultimate protection against congestion, busy signals or equipment problems.

And, of course, there are the people behind AT&T 800 Service. As the inventors of 800 Service twenty-five years ago and the designers of the most complex 800 applications, we have the expertise to create solutions for any business' needs. Including yours.

To find out how we can help you take the worry out of being in touch with your customers, call your AT&T Account Executive or 1 800 247-1212, Ext. 427.



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EUROPE ON FEWER DOLLARS A DAY

More Americans are going over this year, but they're not spending

'Prices here are outrageous!" exclaims a stunned Roberta Foster. She and husband David, a computer repairman from Manassas, Va., have just paid \$6.20 each to walk to the top of Notre-Dame Cathedral. Now, tourist map in hand, she ponders where in Paris to buy sandwiches for her family's dinner. But she's glad they've made the trip to Europe after years of dreaming. When airlines slashed transatlantic fares last spring, the Fosters bought a six-night London/Paris package—plus a pair of *Cheap Eats* guidebooks.

This is the summer that camera-swinging Americans are returning to Europe. Tourists who stayed home because of the gulf crisis, recession, and a plunging dollar are at last dusting off suitcases and—like the Fosters—taking those long-postponed trips. Trouble is, they're not returning in big enough numbers to make it a smash summer season for anyone.

Among the disappointed are U.S. airlines. Anticipating a major rebound, they eagerly boosted transatlantic capacity only to end up cutting fares to fill planes. By March, American Airlines Inc. had already slashed spring and summer fares by as much as a third. European traffic at Continental Airlines Inc. is back to pre-gulf-crisis levels, but lower revenues have canceled out the gain, says John Nelson, an executive vice-president. About 9% more Americans will visit Europe this year than last. But that still leaves traffic well below earlier years (chart).

PENNY-PINCHERS. Moreover, with the dollar close to historic lows, Americans are staying for shorter periods and pinching their wallets. France's Tourism Ministry says more Americans are shunning high-cost Paris and heading to the provinces. They're spending at least 10% less than last year's \$130 a day per person.

At Madrid's posh Hotel Ritz, Americans now "check the prices carefully" instead of plunking down their credit cards, says Sales Director Manuel Toba.

Yet Europe's battered tourist industries can use every American they can get. British hotel occupancy is at its lowest since 1980, pushing 93 hotels into receivership so far this year, on top of 125 last year. London theaters, where foreigners buy one-third of the tickets, are closing shows early. In Italy, soaring prices and Mafia assassinations are

Spain should be crawling with tourists, given the Barcelona Olympic Games and Expo '92 in Seville. But the Year of Spain is a bust for tourism. The number of foreign visitors is up only 7% from last year's depressed levels. Instead of 18 million visitors expected at Expo '92, about 11 million will likely show up by the Oct. 12 closing day. The fair's huge Spanish Pavilion is dimming lights and cutting air-conditioning to save money.

RETURN FLOW. In contrast, Spaniards and other Europeans are heading for the U.S. in record numbers to cash in on the weak dollar. Trans World Airlines Inc. business in Spain is strong, thanks to weekend shopping trips that it's promoting for Spaniards visiting New York. And New York's Tower Air Inc. is packing its planes more tightly with Germans heading for Miami than with Americans flying to Europe. Like last year, when the U.S. earned a \$1.5 billion

tourism surplus with Europe, more Europeans than Americans will cross the Atlantic this year.

Luckily for budget-conscious Americans, the squeeze on Europe's tourist industry is forcing price-cutting. The Hotel Négresco in Nice, where Americans account for one-third of the clientele, is discounting its \$300 minimum daily rate by 15% for one-week stays. "With the dollar so low, we have to do something," says Guy Bellet, the hotel manager. In tourist-hungry Seville, half-empty hotels are slashing rates by 33%. And in London, the Royal Garden Hotel near Kensington Palace and the Hampshire Hotel in the West End theater district are offering half-price rooms to U.S. travelers.

France is a happy exception to the tourist slump. Visitors include Germans who can't go to Yugoslavia; Eastern Europeans who crave a look at the City of Light; and more Americans than last year—by about 15%. True, American airlines aren't as abundant as U.S. airlines had hoped. But after a long absence, tourist businesses are glad to see more of those once-familiar faces, poring over maps and clicking camera

By Stewart Toy in Paris, with Andrea Rothman in New York and bureau reports

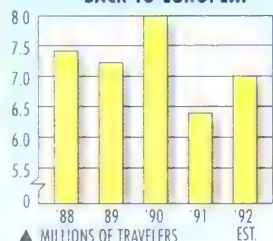


BRIGHT SMILES: FRANCE IS A HAPPY EXCEPTION TO EUROPE'S TOURIST SLUMP

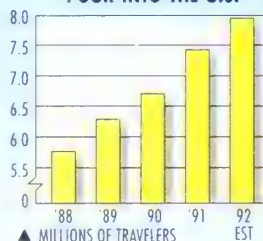
keeping tourists away. "I've never seen it like this," says Marzia Lefebvre, a longtime resident of the Amalfi Coast, south of Naples, where the top tourist watering holes are half empty. Instead of its traditionally fat trade surplus in tourism, Italy will probably show a deficit for August.

THE FLOW ACROSS THE ATLANTIC

AMERICANS ARE TRICKLING BACK TO EUROPE...



...AS EUROPEANS POUR INTO THE U.S.



DATA: EUROPEAN TRAVEL COMMISSION, COMMERCE DEPT

If you're looking
for a computer
that's easy to use,
there are basically
only two ways
you can go.

The hard way.

Advice, \$121 an hour.

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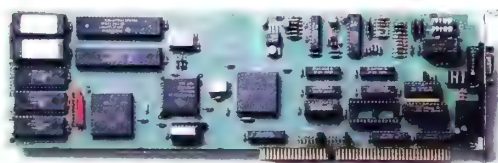
Computer Consultant

Mouse, \$109.

If you don't have one, be



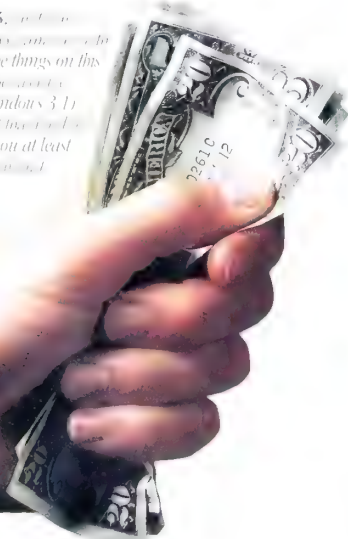
High-resolution color graphics, \$399.



Expansion and support card, \$365.

Money, \$6,204.95.

For the total of all the things on this list, you'll need to spend a lot of money. Shouldn't you at least



Extra memory, \$210. To run Windows 3.1, you'll probably have to add memory. Lots of extra memory.

Windows graphical interface software, \$149.95. It's not as complicated as DOS, but it's not as civilized as the look of a Macintosh. Of course, it won't make a PC look like a Mac.



Your time, name your price.

Over the years, Apple Macintosh computers have consistently been rated significantly better for user productivity than other desktop computers, including those running Windows. You get more done in less time.



New computer, \$2,019.

Windows 3.1 won't run adequately on PC AT, PC XT or 286-class PCs. If you're got to buy a new computer, you might as well get the best one and frustration and get a Mac.



LTRJON5.DOC

Frustration, name your price.

Windows 3.1 is just a first, like on DOS. So, be prepared for frustration, too—like 8-character file names and having to edit technical files like WIN.INI. If you're a Mac user, you'll be able to



New programs, \$495 to \$595 each. To take advantage

of Windows 3.1, each needs new applications. Microsoft's also making it even easier to add new programs to your system.

Labor, \$112 an hour. Somebody has to add all this memory, reconfigure your system, configure all your programs. If you don't do it, you'll have to pay someone else to

The New York Times said, "...the Macintosh family of computers is simply easier to use than computers using DOS or Windows." Computer Shopper said, "Let's not be coy: If you want the best GUT money can buy, get a Macintosh." J.D. Power and Associates ranked Apple the #

The easy way.

Consistently great software. Look, there are more programs for Macintosh than for Windows 3.1 — over 5,000 at last count. Not just innovative new programs, but proven, established applications that have been refined for years. And from Lotus 1-2-3 to WordPerfect, they all operate in the same consistent, intuitive, legible way. Learn one, and you've learned the basics of all of them.

Human terms. On a Macintosh, you can name files whatever you want — like "Jim's report" or "Susan's presentation." This is unusual — an example of how Macintosh understands you, instead of forcing you to understand the computer.

Built-in Balloon Help. Every Macintosh comes with a unique feature called Balloon Help. So if you do have any questions about anything on the screen, you just point at it and a balloon like this appears to tell you what it is and how to use it.

Built-in networking. No extra cards to buy. You can create a network just by plugging two Macintosh computers together. Macintosh Quadra systems have it built in, too. (You also use the point and click simplicity of a Macintosh to manage information on mainframes and minicomputers.)

Built-in video support. No extra cards to buy. Just plug your monitor and you're ready to go. The Macintosh has a built-in video support 24-bit, high-quality color.

Built-in file sharing. No extra software required. It makes working with other Macintosh users as easy as using a Macintosh. And it lets you build a network without having to buy an extra computer to act as a file server.

Built-in SuperDrive disk drive. Lets your Macintosh read from and write to MS-DOS and OS/2 formatted floppy disks as well as Macintosh SuperDisk™ files with other PCs or servers.

Built-in peripheral support. No extra cards to buy. You can plug in up to 7 external and internal devices — hard drives, scanners, CD-ROM drives, or other peripherals — and a Macintosh automatically configures itself without your even realizing it. We call this feature "plug and play." But it's actually plug and work.

Affordable Macintosh systems. Every Macintosh has built-in networking support, sound support, video support, printer support, plug-and-play expansion capabilities and a hard drive. And today you can get a complete Macintosh system from \$1,499, less than half of what one cost only two years ago.

It's compatible. If you already own other kinds of PCs, a Macintosh is compatible with them. With third-party software like SoftPC or an Orange386 card, you can actually run MS-DOS software and Macintosh software at the same time.

Every Macintosh is a multimedia computer. In the future, all computers may enable you to work with sound, video, animation and photographs — as well as text and graphics. But every Macintosh is a multimedia computer today — with the ability to record sound and play video, sound and animation. So you can add voice comments to a document, or add moving images to a presentation.

Personal Computer Company in Customer Satisfaction Among Business Users. So if you want a computer that will let you do more things, more easily, than any other kind of personal computer, a Macintosh is the only way to go. It's that simple.



How to install a printer.

The hard way:

1. In Program Manager, double-click on the Main group.
2. Open Control Panel.
3. Choose Printers.
4. Click on the Use Print Manager checkbox.
5. Open File Manager and find the PRINTER.WRL file.
6. Find the information on your printer for setting DIP switches, configuring memory, etc.
7. Connect the printer to port LPT1.
8. If necessary, set the DIP switches and memory configuration.
9. Return to Control Panel.
10. Click on the "Add" button.
11. Select your printer from the list.
12. Click on "Install."
13. Find your Windows 3.1 diskettes.
14. If you're prompted for other files, insert the appropriate diskette.
15. Click on the "Close" button.

The easy way:

1. If necessary, drag the printer driver icon to the Macintosh System Folder.
2. Connect the printer to the printer port.
3. Open Chooser.
4. Click on the printer icon that matches your printer.

How to retrieve a deleted file.

The hard way:

1. Purchase a utility program, such as Norton Desktop for Windows.
2. Install Norton Desktop for Windows on your computer.
3. Restart the computer.
4. Start Windows.
5. Double-click on the Norton Desktop Applications group.
6. Double-click on the SmartErase icon.
7. Find the directory where your file existed before you deleted it.
8. Click on the directory where your file existed.
9. Select the deleted file from the drive window.
10. Click on the "UnErase" button.

The easy way:

1. Double-click on the trash can.
2. Drag the deleted file out of the trash can.

How to play a sound.

The hard way:

1. Purchase a sound board.
2. Open the computer case.
3. Install the speaker cable on the board.
4. Set the DMA and IRQ jumpers on the board.
5. Install the board.
6. Detach the internal speaker cable.
7. Attach the board's speaker cable to the internal speaker.
8. Close the computer case.
9. Install the software driver for the sound board.
10. Start the sound recorder program.
11. Select Open from the file menu.
12. Type the file name in the File Name box.
13. Choose OK.
14. Click on the Play button.

The easy way:

1. Double-click on the sound's icon.

How to rename a directory.

The hard way:

1. Double-click on the Main group in Program Manager.
2. Start File Manager.
3. Highlight the directory you want to rename.
4. Select "Rename" from the file menu.
5. Type in a new name for the directory (must be 8 characters or less).
6. Go to Program Manager.
7. For each application in the renamed directory, select "Properties" from the file menu.
8. For each application in that directory, change the command line to reflect the new path to the application program (for example, C:\EM\EL EX\EL EXE).

The easy way:

1. Highlight the directory (folder) you want to rename.
2. Type a new name (up to 31 characters).

How to connect to a network.

The hard way:

1. Open the computer case.
2. Configure any jumpers or DIP switches on the network interface board.
3. Install the network interface board.
4. Close the computer case.
5. Connect the network interface cable.
6. Install the network software (configure network parameters).
7. Start Windows.
8. Run Windows Setup to load driver for installed network software.
9. Restart computer.

The easy way:

1. Plug in cable.
2. Open Chooser.
3. Select AppleTalk "Active" button.

How to add an external hard disk drive.

The hard way:

1. Open the computer case.
2. Configure jumpers and/or DIP switches on the interface card.
3. Install the card.
4. Attach the peripheral to the interface card.
5. Close the computer case.
6. If necessary, run the appropriate configuration program provided by the computer manufacturer.
7. Copy the peripheral driver file to the root directory.
8. Run the peripheral's installation program.
9. If not done by the installation program, modify DOS configuration files (AUTOEXEC.BAT and/or CONFIG.SYS).
10. Modify Windows configuration files (WIN.INI and/or SYSTEM.INI).

The easy way:

1. Plug it into the Macintosh.
2. Start up the Macintosh.

Macintosh. The more you do, the easier it gets.



A DEMOTION IS IN THE WORKS FOR THAILAND'S GENERALS

In three short months since taking charge, Anand Panyarachun, Thailand's interim premier, has made huge strides. By ousting military leaders responsible for the May massacre of demonstrators and replacing them with respected professional officers, he has already met the protesters' main demands. Now, in the three weeks before the elder statesman goes back into retirement, Anand is trying to curb the military's economic power by removing the generals from the state enterprises that have been a lucrative source of graft.

Anand's reforms will be on the line when Thais go to the polls on Sept. 13. Right now, the outcome looks too close to call. While the prodemocracy forces are expected to score big in Bangkok, politicians still loyal to generals and tainted by corruption charges will do well in the rural areas. They may even be able to form a winning coalition by buying votes and playing on the countryside's resentment over its exclusion from Thailand's decade of economic boom.

But even if the old guard hangs in, they will be wary of returning to business as usual. Pressure for change is coming from Thailand's rising middle class and young business executives, some of whom are starting to finance reform candidates. "No matter who wins the election, they won't last long unless they meet the public's desire to run the country more professionally," predicts Bangkok Bank Ltd. Chief Economist Nimit Montapunthawat.

ENDING PORK. What is really at stake is the pace of reform. The military will dig in against moves to limit its big role in industry. Senior officers enjoy generous perks from leading private corporations, and different services control such state monopolies as telecommunications, ports, and railways. Top generals rely on commissions from public-works and weapons

contracts to compile multimillion-dollar nest eggs. Politicians join them at the trough—using some of the proceeds to pay off voters and allies.

Anand, who is determined to scrap this system, is making Thai Airways International Ltd. (THAI) a model for future cleanup campaigns. Once a well-managed carrier, the airline has nearly been wrecked by air force generals who turned it into a pork barrel. Anand is probing some dubious deals and is in the process of ousting Kaset Rojananil, a key figure in the May massacre, as THAI chairman and air force chief. He

has also kicked generals and their cronies out of the telephone and transit authorities. He believes the ultimate solution is to privatize state enterprises.

With so much riding on the elections, even Thailand's usually complacent business community is getting involved in politics. A club of young bankers and developers called Business Management Services Co. is bankrolling the prodemocracy campaign. Activists include Akorn Hoontrakul, chairman of the Imperial Hotel Group, Thailand's third-

largest hotel chain. In another new twist, Nippon Paint (Thailand) Ltd., owned by Japanese and Singaporean interests, is funding TV spots in which animated characters urge viewers to go to the polls and not sell their votes. "The ads were my idea," says Nippon Paint's 42-year-old Thai general manager, Suebphonse Poonsatha. "But the board quickly gave me approval."

Thais are heartened by the examples of South Korea and Taiwan, whose affluent societies eventually curbed the power of the military. While no one expects that six decades of military interference in government and the economy will end overnight, the days when Thailand's generals called all the shots look to be drawing to a close.

By Pete Engardio in Hong Kong and Ken Stier in Bangkok



ANAND: HITTING THE MILITARY'S POCKETBOOK

GLOBAL WRAPUP

SOUTH KOREA

The country's Byzantine presidential race is taking a new turn as the ruling Democratic Liberal Party looks as though it might split. An influential politician, Lee Jong-Chan, seems likely to join with former general Chung Ho-Young and former President Chun Doo-hwan to form a new party. Such a coalition could prevent Kim Young-sam, the ruling party's choice, from winning the December presidential election and tip the balance to opposition leader Kim Dae-Jung. Lee's entry could increase the clout of Hyundai Corp. founder Chung Ju-Yung, whose presidential campaign has roiled Ko-

rean politics. If Chung chooses to withdraw as a candidate, he could play a strong kingmaker's role.

CHILE

Now that President Bush has announced a free-trade deal with Mexico, Chileans are eager to take him up on an earlier promise to start talks on a deal with them as soon as negotiations with Mexico were complete. Officials of both countries say negotiations could start in mid-1993. The Chileans received a helping hand from Standard & Poor's Corp., which raised Chile's debt rating to BBB—the only investment-grade rating south of the Rio Grande.

GERMANY

In what may turn out to be a harbinger of change in German industrial relations, DAG, a union representing 15% of Lufthansa's 60,000 workers, has offered to take up to an 8% pay cut and increase its workweek to save jobs. The offer comes after the majority state-owned carrier announced \$360 million in losses for the first half of 1992 and said it would cut over 3,000 jobs. Lufthansa may not be able to take the union up on its offer unless its other, much bigger union, the OTV, agrees to similar terms. Meanwhile Lufthansa's board has agreed to 10% pay cuts.

MANAGEMENT'S NEW GURUS

BUSINESS IS HUNGRY FOR FRESH APPROACHES TO THE GLOBAL MARKETPLACE

A 1990s management quiz:

- (1) Do you work in a "learning organization"?
- (2) Is the boss talking about "business process reengineering"?
- (3) Is your company's "organizational architecture" sound?
- (4) Are you a "time-based competitor"?
- (5) Is your company leveraging its "core competencies"?

Say what? If you aren't familiar with these buzzwords and the management gurus who coined them, you can hardly consider yourself today's thoroughly modern manager. Worse, you and your company may fail to gain competitive advantage from the thriving marketplace of business ideas.

Sure, you've read bits and pieces of Peter F. Drucker's 25 books, and you've digested the best of W. Edwards Deming's ideas about quality. But Drucker is now 82, Deming 91. Tom Peters, perhaps the most-quoted guru of the day, re-

mains durable (page 50). But he has delivered much the same be-true-to-your-customer message for years. Yet the corporate landscape is shifting fast. Competition is increasingly global, technology is developing quickly, and the work force is changing profoundly.

NEW LINGO. These pressures are leaving managers hungrier than ever for fresh approaches. U.S. companies spent \$13.9 billion on outside advice last year—up from \$7 billion only five years ago. American readers shelled out more than \$500 million last year on business books

MICHAEL HAMMER



A former MIT computer science professor,

he has become a missionary for massive organizational change. Hammer, 44, uses the term 'reengineering' to advocate the radical redesign of work. He urges companies to organize around process—say, the filling of a customer order—instead of by functional departments, such as finance and marketing. Has worked with Aetna Life & Casualty, Hallmark Cards, and Texas Instruments



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knowledge and in-
mation. "Ideas are
," says Robert W.
vin, who as chair-
n of Motorola Inc.
ught that company
the forefront of
quality movement.
e listen. We read.

management thinkers are very influen-
tial. They are the developers and pro-
moters of key ideas."

Of course, many new management
ideas are yesterday's theories warmed
over and disguised under a sauce of new
buzzwords. Others are mere fads, feel-
good illusions peddled by false prophets
to convince managers that their solu-
tions make large-scale change easy.



GEORGE STALK JR.



A vice-president
of Boston Con-
sulting, he popu-
larized the idea that com-
panies can use speed for a
competitive edge. Coined

the term 'time-based com-
petition'—which he uses to
explain why companies
need to heed 'cycle times'
in every process. Consults
with GE, IBM, Square D,
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speechifying, and scribbling is dross, there's real gold out there, too. A few of these new oracles of modern management are having a profound impact on some of the nation's biggest companies. For example, Eastman Kodak Co. and American Express Co. have heeded the preaching of Michael Hammer, who coined the term "reengineering" to describe the fundamental rethinking and radical redesign of a business system. Both of these companies have appointed senior officers for reengineering.

ESOTERICA. It's the same story at Xerox Corp. Chairman Paul A. Allaire is no push-over for fashionable B-school nostrums: Much current management literature is, he says, "pure rubbish." But not so the work of David Nadler, president of Delta Consulting Group and the hidden figure behind Xerox' major reorganization this year. An academic turned consultant, the 43-year-old Nadler is the cur-

rent guru of organizational architecture, a term he uses to describe a new form of corporate structure that evolves around "autonomous work teams" in "high-performance work systems."

The lingo may be esoteric, but Allaire views Nadler's ideas as a means to provoke new thinking inside the company. "If you've been in a company long enough, you're part of the culture your-

TENETS OF THE NEW GURUS

LEARNING ORGANIZATION

A conceptual framework for the organization of the future, it's the notion that learning is central to success. Management needs to see the big picture, to escape linear thinking, and to understand subtle interrelationships



REENGINEERING

The term for a fundamental rethinking and radical redesign of a business system. Urges an overhaul of job designs, organizational structures, and management systems. Work should be organized around outcomes, not tasks or functions



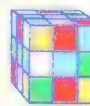
CORE COMPETENCIES

The idea is for companies to identify and organize around what they do best. Corporate strategy should be based not on products or markets, but on competencies that give a company access to several markets and are difficult for competitors to imitate



ORGANIZATIONAL ARCHITECTURE

A metaphor that forces managers to think more broadly about organization in terms of how work, people, and formal and informal structures fit together. Leads to autonomous work teams and strategic alliances



TIME-BASED COMPETITION

The belief that time is the equivalent of money, productivity, quality, and innovation. Proponents argue that time, like costs, is manageable and a source of competitive advantage throughout every process in the organization



DATA: BW

self, and it's hard to step back and listen to new ideas," Allaire says. "He can help facilitate the process and can provide perspective."

The new gurus aren't rewriting Drucker, the most enduring management thinker of our time. More often than not, they're updating him by adding new ideas and tools to what Drucker has called "the practice of management." Besides Nadler and Hammer, the hottest and most influential new gurus include Peter M. Senge, a soft-spoken researcher at Massachusetts Institute of Technology, who focuses on how managers and corporations learn; C. K. Prahalad, a University of Michigan professor who is shaking up strategic planning; Edward E. Lawler III, a California academic who's expanding the frontiers of employee empowerment; and George

Keats and George Bernard Shaw. In press, and Procter & Gamble that corporations, like people, vary in their ability to assess and learn from their experiences. "Learning disabilities hurt organizations and industries badly," says Senge, who offers up his own tenets on how executives and their companies can learn better.

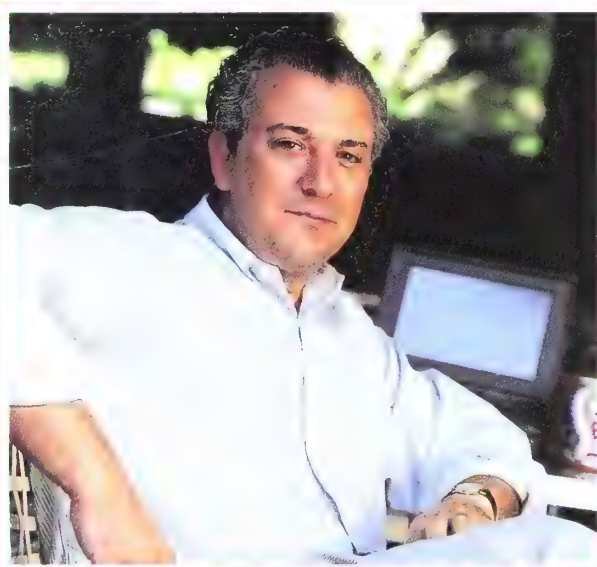
Many of these thinkers also cast unusually wide conceptual nets, basing their ideas on theories and experiences borrowed from the nonbusiness world. Nadler, for example, takes much of his inspiration from the history and philosophy of architecture, which he uses as a metaphor to guide managers through change. Charles Handy, a popular British thinker, draws lessons from John Keats and George Bernard Shaw. In

press, and Procter & Gamble that corporations, like people, vary in their ability to assess and learn from their experiences. "Learning disabilities hurt organizations and industries badly," says Senge, who offers up his own tenets on how executives and their companies can learn better.

STEPPING BACK. At their most provocative, some of the new gurus are turning conventional wisdom on its head. Only a few years ago, managers were sold the logic that strong leadership and enduring corporate cultures were good things. But several management thinkers now believe all the focus on leadership was wrong because it undermined the concept of empowerment. Today's best managers, the theory goes, must step back to allow their workers to assume alternating roles as leaders in teams.

The romantic view of the strong, omniscient leader is largely a myth, maintains Robert Kelley, a consultant and business professor. He estimates that leaders contribute no more than 20% to the success of an organization, while so-called followers are responsible for the remaining 80%. Yet all the thinking, study, and literature focus exclusively on how to produce leaders, he says, often to the detriment of others who assume more passive roles. Similarly, some gurus now say strong corporate cultures, with their ingrained traditions, prevent companies from changing rapidly in response to the times.

Even corporate strategy—one hatched by vast departments of corporate planners at headquarters and later moved down in the organization to line managers—has undergone a complete metamorphosis in recent years. Prahalad, a 51-year-old guru of global strategy, says executives too frequently think of strategy as "fit" instead of "stretch." Companies plot strategy on the basis of their ability to match their existing resources with their ambitions. "If they fit, however, there's no opportunity for creativity and innovation because you're scaling down your ambitions to fit your resources," says Prahalad, who advises AT&T, Kodak, and Philips. "Only when your aspirations and desires lie outside your resources does creativity occur, because you have to invent new ways of



DAVID NADLER

Adviser to top management at AT&T, Corning, and Xerox, Nadler founded New York-based Delta Consulting. He focuses on 'organizational architecture,' a term he uses to describe a new form of organization that evolves around 'autonomous work teams' in 'high-performance work systems'

Stalk Jr., a consultant who is the chief proponent of time-based competition.

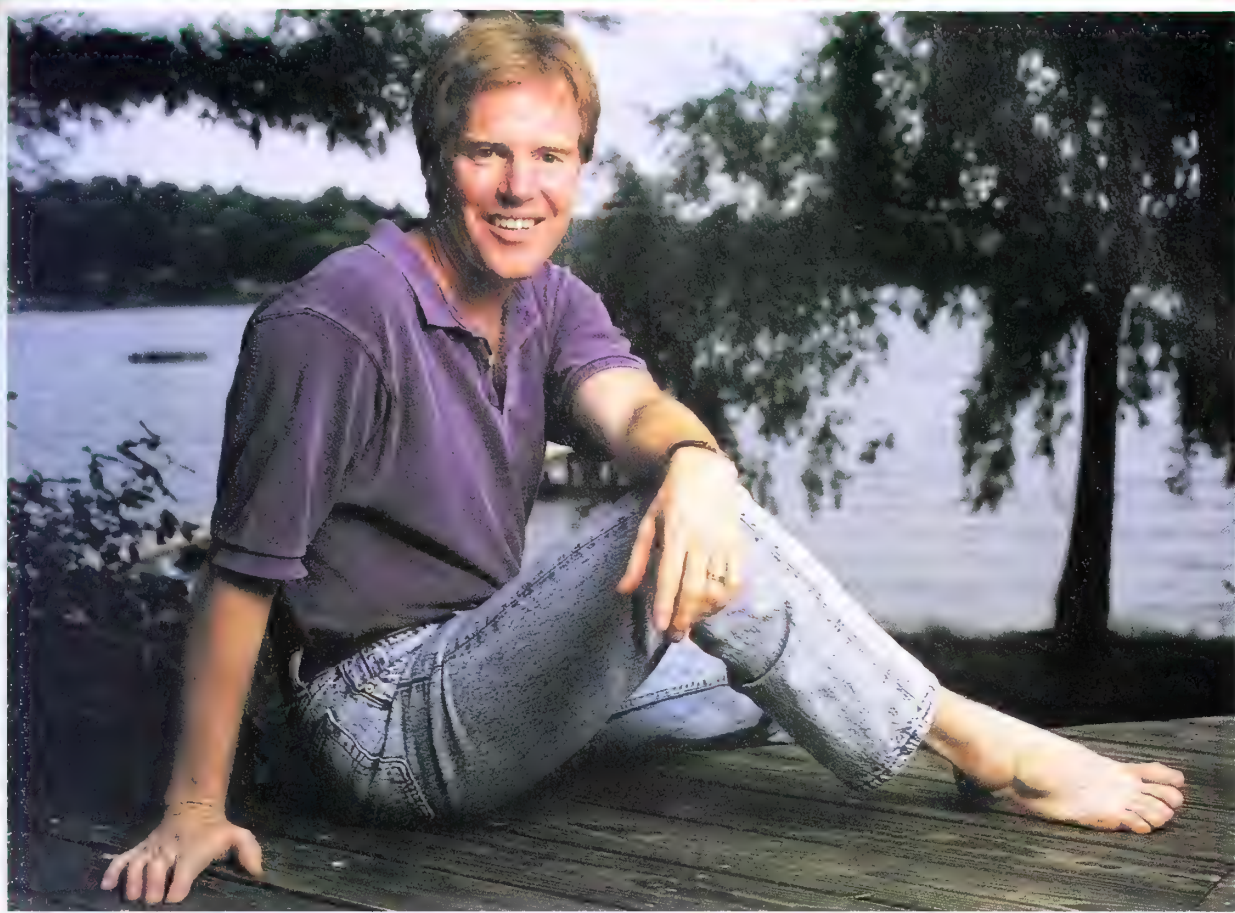
The new gurus aren't all proselytizing from the same text, but they do have several tenets in common. For starters, theirs is generally a sterner religion than the happy-talk evangelism of *The One Minute Manager*, that one-minute best-seller of the 1980s. Nearly all these preachers shun incremental change. They urge managers to think in radical terms, dramatically overhauling entire operations at a stroke.

WIDE NET. They also tend to agree that smaller is usually better. Most believe that management should organize itself on the basis of process, such as fulfilling an order, instead of functions, such as marketing or manufacturing. That takes an organization's focus off its own inter-

challenging managers to act more boldly, for instance, Handy notes that Shaw once observed that all progress depends on the unreasonable man.

The 44-year-old Hammer uses his experience as a former computer-science professor to formulate his notion of re-engineering. Hammer has crisscrossed the U.S. in the past year, giving more than 100 sermons on his precepts, which he unabashedly thinks of as commandments in a new management theology. "It's a theology because it requires a belief that there is a different way to do things," he says. "It requires faith."

Similarly, MIT's Senge uses psychology and education theory as metaphor in his concept of the "learning organization." He tells thousands of managers at the likes of Ford Motor, Federal Ex-



PETER SENGE



The soft-spoken Senge has captured the imaginations of many with his notion of 'the learning organization'—a phrase

that has become a conceptual catchall of the new business organization. Senge, 44, encourages learning through exercises and games that force people to think dif-

ferently about business problems. Director of MIT's Systems Thinking & Organizational Learning Program, he has consulted with Ford, Federal Express, and Herman Miller

competing and change the rules of the game."

To foster that sort of thinking, the professor urges companies to focus on their "core competencies"—what they do best and what differentiates them from the competition. Then, he says, companies should search for ways to expand beyond their existing resources through licensing arrangements, strategic alliances, and supplier relationships. A case in point: Apple Computer Inc.'s alliance with Sony Corp. to manufacture Apple's highly successful Powerbook line of computers, which linked Apple's knack for designing easy-to-use products with Sony's miniaturization and the manufacturing knowhow necessary to make compact products.

Thanks to the freshness of his ideas,

Indian-born Prahalad is regarded as the most influential thinker on strategy since Harvard business school's Michael E. Porter—no slouch as a guru himself. Prahalad, along with a London Business School colleague, now boasts his own video series and expects to publish his ideas in book form within the year.

RECYCLED? Yet much current management thinking sounds suspiciously recycled and repackaged. "High involvement," for example, is only the latest iteration of "empowerment," which in turn was just another name for an older notion. "The idea has been renamed more times than Elizabeth Taylor," laughs Lawler, one of the foremost thinkers in the arena of employee participation. "It all goes to the same issue: How do you move power, knowledge,

information, and rewards downward in an organization?"

If the basic belief of empowerment isn't new, Lawler has advanced the ball with an appreciation for how profoundly a company must change to make empowerment work. It is extremely difficult, he says, for managers to give up authority and for employees to translate that surrender of power by higher-ups into lasting increases in productivity.

"You've got to change the whole system," says Lawler, director of the University of Southern California's Center for Effective Organizations, which works with TRW, Hewlett-Packard, and Digital Equipment. "You create small business units, you flatten the organization, you change the work systems and the design, and you change the role of



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the manager." Lawler has advised General Mills Inc. on how to set up self-managed teams to run several plants. At some beverage plants, for example, four shifts of 20-person teams are informed of marketing plans and production costs. "They have at their fingertips all the data that would normally be held by management," says Daryl D. David, a human resources director. The self-managed teams do everything from scheduling production to rejecting products not up to quality standards, and they receive bonuses based on plant performance. Some 60% of General Mills' plants have been converted to such "high-performance work systems." The approach has produced significant gains in productivity, and the company is now moving to spread it to all operations.

While many of the new gurus are advocates of radical restructuring, that

doesn't mean they applaud the downsizing so many corporations went through in the past few years. In the view of many, those maneuverings may have lowered overhead costs but did not necessarily make businesses more productive or responsive to the market. "If all you try to do is flatten your existing organization," says Hammer, "you'll kill it. The fat is not waiting around on top to be cut. It's marbled in, and the only way you get it out is by grinding it out and frying it out." Translation: Companies need to redesign totally—or reengineer—how the work gets done.

Hammer, a former IBM software engineer who taught computer science at MIT, began formulating his idea of rethinking work in the mid-1970s, when he was consulting with Citibank and Xerox on the use of information systems. "Most organizations were using comput-

ers to automate antiquated paper practices," he says. "They were merely paving cowpaths." Believing that companies should use technology to rethink the way they did business, not simply automate current practice, he quit his MIT job in 1982 to launch his own Cambridge (Mass.) consulting firm. But it wasn't until 1987 that he thought of the term "reengineering" to describe how companies must radically redesign work **PIEDFOLDS**. After he published an article on the subject two years ago in *Harvard Business Review*, Hammer found himself and his ideas hot property. More than 1,500 managers and executives have since rushed to attend his three-day seminars. He has signed a contract with HarperCollins Publishers Inc. which expects to publish his book on reengineering early next year.

Behind the hoopla is an intriguing

EVER IN SEARCH OF A NEW TAKE ON EXCELLENCE

It was a more or less typical day for Tom Peters. He got out of bed at 3:15 a.m. for a predawn run through the rich countryside surrounding his Vermont farm. Later, swerving to avoid a porcupine that scampered across the dirt road, he drove his car into a ditch. After a neighbor pulled him out, he made it to the airport for a 5:30 a.m. private flight to New York, where he was to deliver yet another chest-thumping exhortation to a group of managers.

Peters, the former McKinsey & Co. consultant and co-author of the best-selling management book of all time, *In Search of Excellence*, has done thousands of speeches and seminars. But this one, on a summer morning before some 50 human resources officers, was different. It was his first chance to present material from his new book to be published this fall, *Liberation Management: Necessary Disorganization for the Nanosecond Nineties*. Even Peters seemed jittery.

HIGH HOOPLA. Since the publication of *In Search* a decade ago, and of two best-selling sequels, the iconoclastic Peters has become the most quoted observer of American business. In a world of advice-giving fads and frills, where so many fade out quickly, Peters has shown remarkable durability. So has his Tokyo-based, former McKinsey colleague Kenichi Ohmae, 49, whose ruminations on global business have forced executives to think more clearly in terms of an international marketplace. The Japanese-born thinker was



TOM PETERS The author of *In Search of Excellence* now makes about 30 public appearances a year—most of them chest-thumping exhortations to groups of managers—at \$60,000 a pop

among the first to argue for partnerships among U.S., European, and Asian companies. Ohmae has proved the most prolific of the McKinsey-rooted thinkers, writing 38 books in 20 years. He received 930 requests for speeches last year. Peters' original partner, Robert H. Waterman Jr., has chosen to keep a lower profile, prefer-

ring to remain an active consultant. At the height of the *Excellence* hoopla, in the early to mid-1980s, Peters was giving 150 to 200 speeches a year at \$25,000 a pop. Now he makes some 30 public appearances annually, at \$60,000 each. He also writes a widely syndicated column, runs an executive training company on the side, and

ea: that companies should be organized around process instead of function. Something as simple as filling an order might go through a dozen different functions in some companies," Hammer says. "Each has its own fiefdom with its own concerns and objectives." Such function-based organization introduces errors, adds costs, and causes delays. Hammer's reengineering approach offers ways to streamline—an alluring notion to cost-conscious managers. ITT Sheraton Corp., with 450 hotels around the world, is in the midst of reengineering its operations. Executive Vice-President John W. Herold Jr. was impressed by Hammer's spiel a few years ago. Herold invited him to headquarters to talk with senior management, then dispatched 22 of his top operating executives to Hammer's three-day seminars. The upshot: "We threw away the book and invented a new hotel," says Herold. The typical 300-room Sheraton Hotel had

required up to 40 managers and 200 employees. By eliminating narrowly defined jobs and rethinking antiquated procedures, ITT found it could run a reengineered version of 250 suites with only 14 managers and 140 employees—with higher customer satisfaction. "We redesigned the processes of the company and eliminated everything we didn't need to do," says Herold. "Most of the managers were filling out reports for bosses."

TIME PRESSURE. Hammer's ideas overlap somewhat with another hot movement in management thinking: the push for time-based competition. The chief proponent of the idea, George Stalk, and his partners at Boston Consulting Group Inc. had been startled in the late 1970s by how much faster several Japanese companies got products to market than did their U.S. competitors. In one consulting study after another, Stalk heard clients talk about the speed of development. "What made it connect was that

everyone knew time was important to business, but no one knew how to manage time," he says.

By 1985, he had thought up the term "time-based competition" to describe the focus of his consulting efforts. In the late 1980s, Stalk was regularly mapping, measuring, and monitoring a given process—whether it was the development of a product or the fulfillment of an order—to form the basis of a time-based competition practice of some 12 consultants within BCG. Today, more than 100 consultants at BCG alone largely work with major corporate clients to implement the idea, at fees of about \$250 an hour. And Stalk's catchy phrase has spawned a litter of similar terms to describe the same thing, from "cycle-time reduction" to "time-compression management."

Whatever the phrases, they are all familiar to Nadler, who has captured a strong corporate following for his advice

in several PBS specials a year. Peters speaks with near-adulation and evangelical fervor. Peters brings a competitiveness debate. Critics are often flippant comments are more than sound bites. More important, however, he has undergone his transformation from a cheerleader at's right with the best of Big Boss—a basic theme of *Arch*—to a champion of the cause to midsize companies. A outspoken critic of the status quo. The change largely results from his belief that operations are easier to manage and that they tend to be more responsive to customers.

PETERS. For three straight years, Peters is out to show what's relevant and provocative. Pacing the floor, going back and forth, he exclaims on everything from the need for "minimalist headquarters" to "deintegration" or the falling apart of companies that try to do everything themselves. He speaks of "buckyborgs," his term for clusters of 50- to 60-business units, and of "aware," the need to communicate on the basis of intelligence instead of hardware. And he has lost his knack for the audacious rant.

the marketplace has gone bonkers. Better have a bonkers organization. Straitlaced folks are not going to make it in a world that's not straitlaced. Middle managers are cooked geese.

Raise hell and at least go down in flames. You're better off getting fired for doing something interesting rather than laid off while doing something boring."

■ "The average decentralized corporation is not decentralized. It's a sham, a sick joke."

When Peters, 49, talks of companies

cross-functional project teams that use their collective intellect to satisfy visible customers. People take initiative, start projects, seek customers, and build their own networks of contacts to accomplish goals.

Such companies "trade in pure knowledge," Peters says. "Functional departments are virtually nonexistent, and all the work is organized around loosely linked teams of people." The changing nature of the economy, from a world in which resources were key to one in which knowledge and information are crucial, is the driving force behind this change. To survive, managers have to act more like consultants, creating projects and challenging norms.

The audience, from such companies as American Express and Olin, listens to him, then politely asks a few questions and disbands. Later, back on his 1,300-acre Vermont farm with its llamas and sheep, he hears that many in the audience thought his presentation wasn't relevant to them.

Peters can't hide his disappointment. "I'd like them to get the message," he says. "I'm frustrated because we're dealing with intractable business problems, and it's the frustration of being a reasonably well-known explainer who's not doing anything when it comes to explaining." Ah, but who ever said the life of a guru was going to be easy?

By John A. Byrne in New York



KENICHI OHMAE The McKinsey veteran has written 38 books in the past 20 years and received 930 requests for speeches last year

that do it right, nearly all his examples are either small unknowns or professional service firms such as Arthur Andersen, Chiat/Day/Mojo, and his old employer McKinsey. One reason: Peters believes that the best models for the organization of the future are advertising agencies or consultancies. In such firms, most work is performed by

on organizational design. The former Columbia University business school professor established New York's Delta Consulting in 1981 as an alternative to such strategy-based shops as McKinsey & Co., Bain & Co., and Stalk's BCG. His idea: to bring together the strategic issues with the behavioral dynamics of organizations.

The philosophical framework for his firm is what he dubs the "congruence model of effectiveness." It's how the four key elements of an organization—

work, people, the formal structure of a company, and the informal structure and process—fit together. Sound a bit dense? Says Nadler: "It's a language system, a way to take something complex and overwhelming and make it easy for managers to understand."

That system is used to study an existing company and to then design the "organizational architecture" of a new one. Allaire of Xerox, for example, is said to walk around the company with a sketch of the congruence model in one of his

notebooks. Xerox used Nadler's methodology to guide it through its latest reorganization, which breaks the company into smaller, more autonomous, and theoretically more responsive units.

The internal group of Xerox managers who developed the new architecture of the company called itself the "future texture" team. Over the 15 months of the project, Nadler worked closely with the team. One result: A new, three-level organization chart shows Xerox' corporate staff at the bottom, supporting the business teams and districts at the top. More important, profit-and-loss responsibility, once focused in the chief executive's suite, has moved down to 20 business-team general managers. Units and teams now have complete beginning-to-end responsibility for a Xerox product.

PLAYING GAMES. No matter how dazzling the insight or brilliant the theory, however, it will be of little use if an organization and its people can't learn from it. That's where the idea of the "learning organization," popularized by Senge, comes in. One way to improve learning, he says, is to create opportunities for managers to practice in a risk-free environment, not unlike a rehearsal for an actor or an exhibition game for a ball player. "People who have studied how human beings learn come again and again to the world of play or what we call a practice field," says Senge. "By moving managers between a performance field and a practice field, you can improve the learning process."

To do that, Senge brings senior executives and front-line managers together to play simulation games that allow them to gain better insights into how each of their decisions affects the others. His approach is being used by managers at numerous companies, from Ford to Federal Express. And he has many enthusiastic supporters in the business community. As chief executive of Hanover Insurance Co., William J. O'Brien used Senge as a consultant for eight years to teach his management team such techniques. "I'm not saying it gives absolute answers, but it gives the human mind a more informed way to look at business," says O'Brien.

For every Senge or Nadler who has already won the ears of the corporate elite, there are dozens of other aspirants who hope someday to become the next Drucker or Deming. Some of them and their ideas will go the way of the hula hoop. But others are likely to have a lasting impact on the practice of management and the shape of U.S. corporations. Whether or not you agree with them, that fact alone makes the current crop of pundits worth listening to.

By John A. Byrne in New York

MORE GURUS AND THEIR TENETS



CHARLES HANDY Half philosopher, half futurist, this former British banker maintains that "discontinuous change" requires dramatically new approaches to work and organization. A lecturer at the London Business School, Handy, 60, is the author of *The Age of Disruption*, a handbook loaded with new, catchy phrases to help managers cope with change.



JOHN KOTTER The Harvard Business School's guru on leadership, he believes that most U.S. companies are overmanaged and underled. Kotter, 45, says that organizations need to combine strong leadership—defined as the ability to set a challenging environment—with strong management, or the ability to cope with complexity.



RICHARD J. LANTIERI III He divides the term "empowerment" but this guru at the University of Southern California is one of the foremost thinkers on what is now called "high-performance involvement." Lantieri, 38, advises companies to break themselves down into small units, give employees exceptional pay in what they do, and reward them for taking responsibility.



C.E. PRAHALAD A brilliant futurist at the University of Michigan, Prahalad may well be the most influential thinker on corporate strategy today. With Gary Hamel, a colleague at the London Business School, Prahalad, 57, urges firms to focus their strategies around "core competencies"—abilities or technologies that give them a competitive edge.



DENNIS ROSS Co-founder of Greenwich (Conn.) consulting firm Global Change Lab International, Ross is a management expert who has worked with such companies as Amstar Life & Chemistry and Bristol-Myers Squibb. Ross, 48, maintains that the "new molecular organization will be built around markets, not products or functions."



DEBORAH DUGAN Author of *The Age of the Smart Machine*, this Harvard Business School professor speaks of the need to be "utterly" but to "intentionally" use smart machines in conjunction with smart people. Dugan, 40, is currently studying "model companies" that employ technology to change the nature of work.



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STOCK ISSUES HEARD ROUND THE WORLD

Investment banks push and shove to manage global offerings

Earlier this year, Wellcome PLC, the British pharmaceutical giant, decided to raise no less than \$4 billion in new equity. Just a few years ago, the offering would have been impossible. There was nowhere near that much demand for Wellcome stock from British investors. And though it makes the AIDS drug AZT, Wellcome was not well-known among foreign investors, since most of its stock was held by a charitable trust.

Ever-resourceful investment bankers, though, are offering a new service that enabled the Wellcome deal to get done: the global equity offering. The lead firm, acting as the "global coordinator," mobilizes separate but linked underwriting syndicates in markets throughout the world. While global deals have been around since the 1980s, it wasn't until this year that the technique came into its own. In May, 1992, for instance, General Motors Corp. raised \$2.1 billion by selling 40 million shares in the U.S., 6 million in Britain, 4.5 million in Europe, and 4.5 million in the Far East. According to London's IFR Securities Data, issuers during the first half of this year raised some \$14.9 billion in international equity, stock sold outside the issuer's home country. That's up from \$8 billion for all of 1990.

STRONG LURE. Investment bankers are falling all over themselves to get this business, which is becoming the 1990s' version of mergers and acquisitions. Big global equity deals are still a virtually virgin market, and firms are scouring the world trying to win over governments and companies with potentially huge equity needs. The big lure of a megadeal is the megafee (table). "That's why this business is worth fighting for," says Tony Brooks, managing director at Lehman Brothers.

U.S. firms, along with British investment banks, are easily outstripping competitors (table). The global coordinator for the Wellcome deal was the British firm of Robert Fleming & Co. Led by

Morgan Stanley & Co., sold one of the biggest slices of stock. From February to July, 1992, bankers worked on the Wellcome deal throughout the U.S. Morgan Stanley filed with the Securities & Exchange Commission the first "pink herring," similar to a red herring, or

The chief appeal
of the international
megadeals is
the megafees



preliminary prospectus, which allowed it to start marketing the deal a month early. In July, after the stock market began pummeling drug stocks, Morgan Stanley CEO Richard B. Fisher hosted a lunch for institutional investors in New York to revive interest.

Morgan's salesmanship paid off. U.S. firms ended up selling one-fourth of the

total offering, or \$1 billion in dollar-denominated American depositary receipts to U.S. investors. This was the largest chunk of a foreign company's stock ever sold domestically. U.S. firms raked in a quarter of the massive \$143 million in fees, a nifty \$36 million. "The firm went all out to get this done," says Morgan Stanley Managing Director Vikram Pandit. "While there is a lot of risk associated with these transactions, you've got to have them on the marquee."

It was then-Prime Minister Margaret Thatcher who got the global equity market rolling in the 1980s by privatizing British companies. To sell stock of massive government agencies, Britain needed to tap buyers worldwide. When U.S. investment banks participated in the early offerings, they were at a disadvantage in Britain's cumbersome, often risky "fixed price" system, where the British issuer sets the offering price a few weeks before the stock goes on sale.

The markets are now moving toward the U.S. "book-building" system. Before the offering price and deal size are set, customers around the world are informally solicited for their preliminary interest, a process known as building a book of orders. Just before the deal is sold, the lead manager sets price and size on the basis of demand, reducing the chance of mispricing the issue. The Wellcome deal, which turned out very successfully, was the first to be done fully with the book-building method. "This is the way deals will be done around the world from now on," predicts Morgan Stanley's Pandit.

GROWING NEEDS. Also helping the competitive position of U.S. firms is that U.S. institutional investors are buying foreign stock in record volume. U.S. managers now view international equity as nearly as acceptable as international debt, which they've been buying for years. U.S. issuers, meanwhile, are proving to have growing global capital needs as well. "The more diverse the market, the more interest you can generate," says Charles E. Golden, GM's treasurer.

Wall Street is betting on a continuing supply of global equity in all parts of the world. The biggest issuers are expected to be cash-strapped governments eager to raise money quickly by privatizing everything from railroads to phone systems. Much action is expected in France, where three large insurers, GAN, UAP, and AGF may be put on the block. "The experience of privatization in the mid-1980s showed that the French government chose largely foreign bank

advisers," says François Beaumont, the director of privatization at Crédit Lyonnais' investment bank.

U.S. firms are enjoying significant success in winning global coordinator mandates in smaller "emerging growth" markets. Robert E. Rubin, Goldman, Sachs & Co. chairman, personally spearheaded the firm's push into Mexico in the late 1980s, a step ahead of U.S. competitors

and just before that market took off. In April, 1991, Goldman was chosen to manage the huge Teléfonos de México global equity offering and pocketed the largest share of the \$85 million in fees, say competitors.

The four major Japanese brokerage firms have fared poorly. The precipitous drop in the Japanese stock market has decimated the new equity market for the past two years. Their only high-profile global coordinator assignment, garnered

A SURGE OF BLOCKBUSTER DEALS...

Largest global stock issues using U.S. underwriting practices

Issuer	Amount Billions	Country	Date raised	Fee to bankers Millions
British Telecom-2	\$10.1	Britain	11/91	\$100
Wellcome	4.1	Britain	7/92	143
GM	2.1	U.S.	5/92	53
Telmex-1	1.9	Mexico	4/91	85
UAP	1.8	France	2/90	68
San Paolo di Torino	1.2	Italy	5/92	36
Repsol	1.1	Spain	4/89	39
China Steel	0.9	Taiwan	5/91	33

*Securities sold outside issuers' home countries

DATA: IFR SECURITIES DATA, S.G. WARBURG GROUP

...WITH U.S. FIRMS DOMINATING THE ACTION

Jan.-June 1992

Lead manager	Amount* Billions	Market share Percent
Goldman Sachs	\$3.0	20.5%
Morgan Stanley	2.4	16.3
Shearson Lehman Brothers	1.3	8.8
Merrill Lynch	1.0	6.8
Banco Roberts	0.9	6.3
S.G. Warburg	0.9	6.0
Credit Suisse/CSFB	0.8	5.7
Paribas	0.8	5.6

by Nomura International PLC in London for the \$1 billion offering by Irish aircraft-leasing company GPA Group PLC earlier this year, ended in failure when the deal was canceled. "If we fly to Asia for a potential deal, often the Americans are there ahead of us," says Masayasu Ohi, general manager of international investment banking at Daiwa Securities Co. "We try, but in practice we have little chance."

A continuing boom in global deals is

not assured. Privatization in Eastern Europe has slowed. European equity markets are weak because of limping economies and political uncertainties. But given the strong worldwide demand for capital and the incentives U.S. investment banks have to raise it, the stampede for global equity business is probably just beginning.

By Leah Nathans Spiro in New York, with Stephanie Cooke in London, Bill Javetski in Paris, and Karen Lowry Miller in Tokyo

FRIENDLY FINANCING: FROM THE U.S. TO ISRAEL

In July, Bezeq, the Israeli state-owned telecommunications company, asked for proposals from U.S. investment banks to float a \$200 million bond issue. To the surprise of Israeli financiers, six major U.S. investment banks rushed to respond. The firms saw the Bezeq deal as a way of positioning themselves for "much bigger business in the months to come," says Dan Halperin, who advises Salomon Brothers Inc. in Israel.

Now that President Bush has agreed to \$10 billion in U.S.-guaranteed loans for Israel, the business should soon be flowing Wall Street's way. The money will likely be raised through 30-year bond issues underwritten by the big New York investment banks.

IN THE PIPELINE. True, the firms won't make a bundle from the deals. The underwriters will earn fees of about 45 basis points, or \$45 million on the full \$10 billion, a typical fee on guaranteed bonds—and that will be spread out over five years. But about \$900 million in other offerings, both bonds and

stocks, are in the pipeline along with the loans. Some issues will result from newly elected Prime Minister Yitzhak Rabin's efforts to give a new push to the privatization program that had fizzled under his predecessor, Yitzhak Shamir. The government has said the Bezeq financing will be the first step toward privatizing the company. It has tapped Salomon to run the sale of its 50% interest in Zim Israel Navigation Co. and may soon float a one-third stake in Israel Chemicals Ltd. Both issues will be equity financing, where the fees are a lot higher than for bonds.

U.S. securities firms have worked with Israel for years and are familiar enough with the territory to bring a greater volume and variety of Israeli issues to market. "With the government's announced intent to hasten privatization, I see a surge of distributing Israeli securities both at home and abroad," says John G. Heimann, chairman of Merrill Lynch & Co.'s Global Financial Institutions Group.

In early August, Merrill was the lead underwriter on the \$100 million initial public stock offering of the Israeli electronics company Tadiran Ltd.—the largest Israeli initial public offering ever in the U.S. Other investment banks active in Israel include Kidder Peabody—which has advised

the government on previous financings—Shearson Lehman Brothers, Salomon, First Boston, and Bear Stearns.

Indeed, Kidder, Peabody & Co. is working on an \$85 million bond financing for the Amos I communications satellite, to be launched by Israel in early 1994. The issue would securitize the payments from the government and the

companies that use the satellite.

Despite the likely surge in activity, Israeli deals aren't easy. Political resistance has slowed privatization since its start in 1988. Still, Rabin seems willing to be flexible in political negotiations. That may carry over to dealmaking.

By Stanley Reed in New York and Neal Sandler in Jerusalem

UPCOMING ISSUES

Bonds	Value (millions)
U.S. GOVERNMENT GUARANTEED	\$10,000*
AMOS I SATELLITE	85
BEZEQ	200
ISRAEL ELECTRIC CORP.	80
Equity	
FIRST ISRAEL FUND	60
ISRAEL CHEMICALS	360
ZIM	85

*Over five years

DATA: BW

WordPerfect users prefer Windows no matter where



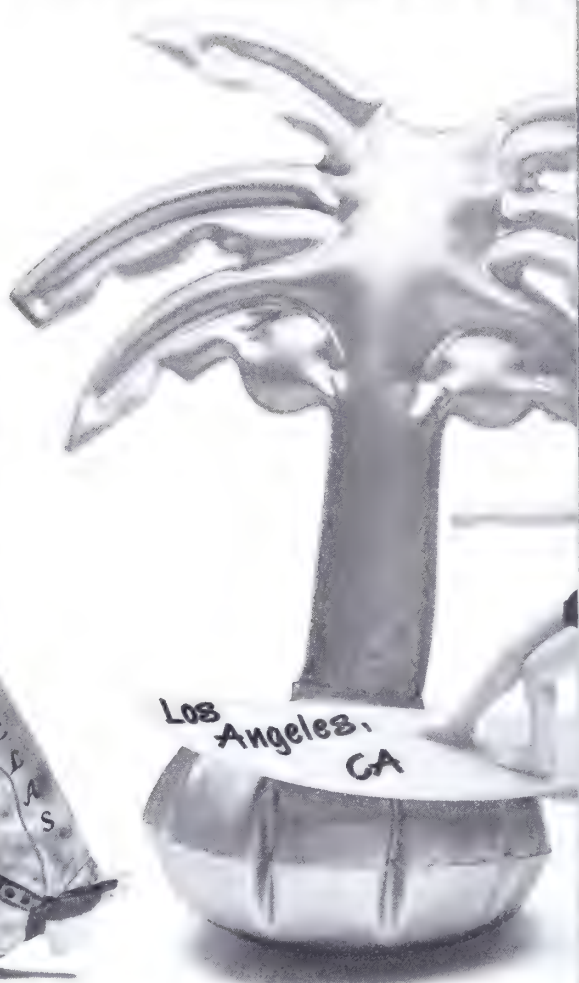
Washington, D.C.: 72% of WordPerfect users found Microsoft Word for Windows easier to learn.



Portland: 92% of WordPerfect users found Microsoft Word for Windows easier to learn.



Dallas: 88% of WordPerfect users preferred Microsoft Word for Windows over WordPerfect for Windows.



Los Angeles: 72% of WordPerfect users, if given a choice, would buy Microsoft Word for Windows over WordPerfect for Windows.

The 1992 Coast-to-coast

The 1992 Word Challenge is over. And as you can see, the results speak for themselves. WordPerfect® for DOS users all over the country prefer Word for Windows™ for everyday word processing tasks. Over the past two months, the National Software Testing Labs visited 10 different cities to ask WordPerfect users to compare WordPerfect for Windows and

Microsoft® Word for Windows side-by-side. WordPerfect users were amazed at how Word put them one step away from accomplishing everyday word processing tasks with, in many instances, one simple click of the mouse. They found it that easy.

The tour was not only fun, but it definitely confirmed two very strong hunches we've had for some time. One, WordPerfect

er Microsoft Word for what state they're in.



Salt Lake City: 76% of WordPerfect users preferred Microsoft Word for Windows over WordPerfect for Windows.



Chicago: 68% of WordPerfect users, if given a choice, would buy Microsoft Word for Windows over WordPerfect for Windows.



St. Louis: 71% of WordPerfect users preferred Microsoft Word for Windows over WordPerfect for Windows.



Minneapolis: 88% of WordPerfect users felt that Microsoft Word for Windows was the easiest to use.



Atlanta: 74% of WordPerfect users felt that Microsoft Word for Windows was the easiest to use.



New York: 80% of WordPerfect users think that Microsoft Word for Windows is easier to use.

oast Word Challenge.

users prefer Word for Windows for everyday word processing tasks. And two, airports sell some very tacky souvenirs.

But you can see for yourself. Simply call us for a free "Word Challenge Kit." Included is a videocassette highlighting the actual test, and interviews with WordPerfect users who took the challenge. Also in the kit are the files you need to test

Word on your own. Call (800) 323-3577, Department HD2. We think once you get a chance to judge for yourself, you'll no doubt want to take advantage of our special \$129 upgrade offer.*

No matter what state you're in.

Microsoft
Making it easier

NO PREDATORS NEED APPLY

First Interstate is determined not only to go it alone but to expand

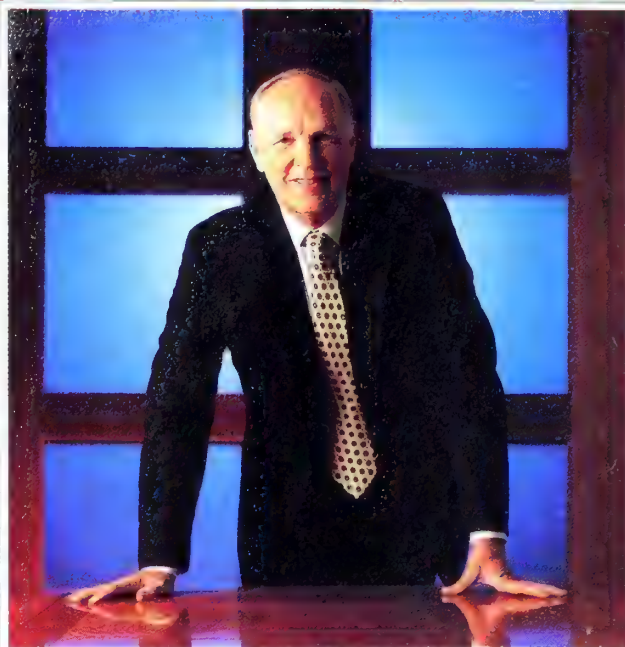
When BankAmerica Corp. announced a year ago that it would acquire ailing Security Pacific Corp., bankers and Wall Street pundits began counting the days until First Interstate Bancorp. would also fall to some hungry predator. After all, they reasoned, the ailing Los Angeles bank was no match for the growing BofA empire. Then, there was Kohlberg Kravis Roberts & Co.'s 9.8% stake in the bank. The buyout firm, it was thought, would favor a deal.

Finally, First Interstate's 995-branch network, spread over 13 Western states, was said to have caught the attention of such acquisitive banks as San Francisco-based Wells Fargo, Norwest of Minneapolis, and Banc One in Columbus, Ohio. Everyone seemed to agree that a takeover of First Interstate, which has \$50 billion in assets, was inevitable. Everyone, that is, except Edward M. Carson.

First Interstate's chairman and chief executive is not only determined to go it alone but he's planning to expand. Although he says he will entertain any offers, Carson argues that his shareholders stand to gain more in the long term from a strong, independent First Interstate than from a merger with a more powerful institution. "I don't subscribe to the notion that bigger is better," Carson says.

EMPIRE SHRINKER. At first glance, Carson doesn't appear to be the kind of CEO who can fend off well-heeled buyers. At 62, just three years away from retirement, Carson has a reputation as a low-key manager, a sharp departure from the feisty style of his predecessor, Joseph J. Pinola. Still, he is known as a tough cost-cutter. That's a big reason why the board tapped Carson to succeed Pinola in 1990. At the time, First Interstate was staggering under the double whammy of runaway costs and bad real estate loans.

Carson has been quick to put his talents to work. He has attacked the bank's bloated cost structure with a ven-



CARSON: STRESSING PRUDENCE RATHER THAN LOAN GROWTH

geance. Most dramatically, he has been methodically dismantling much of the far-flung empire his predecessor had assembled in the 1980s. Gone are small banks in Oklahoma, New Mexico, and Colorado. He is also backing off from Pinola's global ambitions by selling the bank's volatile \$1.3 billion international corporate-finance and trading business. The result has been dramatic savings that many critics would have thought possible only through a merger. Carson

has cut the bank's staff by more than 7,000, or 20%. Overall, he predicts that \$280 million this year will be lopped off the bank's \$2.3 billion operating budget.

Carson has also gone to work on First Interstate's loan portfolio, still heavily exposed to California's shaky real estate market. He slashed nonperforming assets to \$1.2 billion at the end of the second quarter, from \$2.1 billion in 1989. To guard against future surprises, all of the bank's 1,500 loan officers were put through a retraining course, which stressed prudence rather than loan growth.

These moves are already showing up on the bottom line. First Interstate climbed back into the black in the first half (chart). And while profits have no doubt been helped by lower interest rates, Carson believes earnings will steadily improve. Indeed, last January, he tried to dispel Wall Street's negative prognosis for First Interstate by issuing

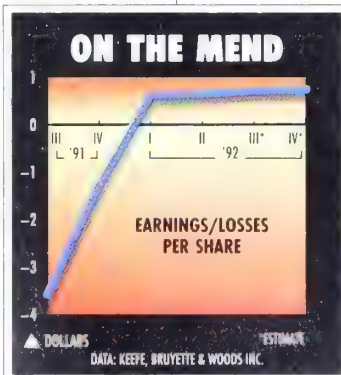
crashed. Carson pledges that he's bagging hunting and would buy only with federal assistance. Thought to be on his list are HomeFed Corp., the San Diego thrift seized by the government in July, and the struggling First City Bancorp of Texas.

PRICEY. To help bankroll acquisitions, Carson is counting on KKR, which has proven a lot more patient with First Interstate's travails than Wall Street once thought. KKR declined to comment on its ties with First Interstate, but in April the firm notified the Securities & Exchange Commission that it wants to explore potential joint acquisitions with the bank. Any deal, possibly similar to the successful Bank of New England Corp. buy KKR made with Fleet/Norstar Financial Group Inc., would be a vote of confidence for Carson.

Maybe. But with too many banks and not enough business to go around, the consolidation trend is tough to resist. Many analysts believe First Interstate would have already fallen prey if weren't for California's weak economy. Wells Fargo & Co., for instance, is preoccupied with bad loan problems. First Interstate's share price has probably also given would-be suitors some pause. Now at 37, more than double what it was in 1990, the bank looks a bit pricey.

Still, given Carson's rapid rehabilitation of his bank and his ambitious game plan to make the institution again worthy of its name, First Interstate's future may be more likely that of an acquirer than an acquiree.

By Amy Barrett in Los Angeles, with Russell Mitchell in San Francisco and Suzanne Woolley in New York.



THE BANK POLICE GET A BIGGER STICK

New FDIC regs will give the feds sweeping powers over ailing banks

It may go down as the biggest irony of last year's legislative session. Bush Administration officials put together what they thought was a sure plan to cure the ills of the nation's banks. Although it seemed a long shot, they asked Congress to adopt a sweeping reform of the financial system that included expanded powers for banks and a huge \$70 billion loan to shore up the depleted deposit insurance fund.

In the end, Administration officials received their loan. But they also got a lot they didn't bargain for. Terrified that the hemorrhaging banking industry

pact on the structure of the industry.

Proponents of the law say the new regulations will encourage better management because better-performing banks are exempt from many of the more onerous rules. But critics see it differently. "The nature of regulation has crossed the line," declares Edward L. Yingling, chief lobbyist for the American Bankers Assn. "It has become micromanagement."

Bankers, some members of Congress, and even some regulators say the new law will exacerbate, not solve, the industry's problems. Although most of the

posit Insurance Corp. estimates that Congress' 2% solution could force regulators to shutter banks with upwards of \$76 billion in assets, double what they initially expected for 1993. What's more, complying with the new regulations will only add to overhead at a time when most banks are trying to cut expenses. "It's like the old medical practice of bleeding the patient," says Federal Reserve Governor John P. LaWare.

The scope of the legislation's intrusion into banks' internal operations doesn't end there. Regulators themselves are uncomfortable with provisions that require them to set guidelines on acceptable earnings for a troubled bank. And when it comes to rules requiring them to devise parameters for an ailing institution's stock price, they admit they're somewhat bewildered.

Reacting to the criticism, the Bush Administration is acting to ease the burden on banks by proposing legislation to roll back some of the congressional man-



might provide a slow-motion replay of the thrift fiasco, Democratic lawmakers balked at the reform proposals. Instead, they enacted one of the strictest and most sweeping pieces of financial regulation in decades.

AYMASTERS. The so-called FDIC Improvement Act, whose provisions are now being implemented, will allow regulators to meddle in almost every aspect of bank management. At poorly capitalized banks, regulators will be able to decide how much executives should be paid. They'll even be allowed to determine what would be an acceptable stock price for an institution (table). The act could eventually have a far-reaching im-

measures are aimed at troubled banks, critics contend that these are just the institutions that can ill afford a regulatory straitjacket.

Of immediate concern are new rules requiring early intervention by regulators when a bank is close to insolvency. Under current guidelines, regulators must wait for a bank to exhaust its net worth before they can close it. But starting in December, regulators will be required to act once a bank's tangible equity falls below 2% of its assets.

Regulators then have such forceful options as seizing the bank, ousting management, suspending dividends, and selling off operations. The Federal De-

WHAT REGULATORS CAN DO

EARLY INTERVENTION

To forestall bank failures, regulators after Dec. 19 will be able to fire managers and directors of troubled banks and can force them to raise cash by cutting dividends and selling subsidiaries

EXECUTIVE PAY

Effective Dec. 1, 1993, regulators will have the power to set compensation standards for poorly capitalized banks, based largely on the size and performance of the institution. Pay levels could be cut if they're considered too generous

PERFORMANCE

In addition to capital requirements, ailing banks will have to adhere to regulatory guidelines on earnings after Dec. 1, 1993. Even a bank's share price will be subject to review by regulators. Banks that do not meet these standards may be fined or have constraints imposed on their growth

LENDING

In March, 1993, regulators will issue standards for making real estate loans, including limits on how much can be lent on various kinds of projects

DATA: FDIC IMPROVEMENT ACT OF 1991

dates. What's more, regulators, wary of their new clout, say they intend to give banks as much flexibility as possible when they implement the regulations. They say they will come down hard only on the weakest banks.

Still, some banks are so upset that they may finally make good on a long-standing threat: Banking consultant Edward E. Furash says several large clients want him to study whether they can give up their charters. That would be a drastic step. But given Congress' mood, bank regulations stand a better chance of getting a lot tougher before they get any easier.

By Dean Foust in Washington

THOSE DREAM LEASES CAN BE RUDE AWAKENINGS

Office space is cheap, yes—but beware the pitfalls and legal hassles

Call them cheap leases from hell. The huge glut of space produced by the 1980s' commercial-construction orgy has pulled rents way down. Moreover, as extra enticements to fill their vacant buildings, hungry real estate owners often throw in a year's free rent and free interior work, such as erecting partitions. All of this has made the 1990s a paradise for office tenants. But for a growing number of renters, the paradise is dotted with land mines, especially when the landlord happens to run into trouble. Notes Philip R. Sprayregen, a managing director at the CB Commercial Real Estate Inc. brokerage: "Sometimes, what look like really good deals are fraught with risk for tenants."

Ask Proskauer, Rose, Goetz & Mendelsohn. A tantalizingly low rent at a new glass-sheathed office tower near Times Square in Manhattan seemed too good to pass up—fully \$10 per square foot less than the law firm had been paying under its old lease. So, it happily moved into nine floors of the 42-story skyscraper in late 1990.

BUMPS AND GRIME. Unfortunately, the landlord, Solomon Equities Inc., couldn't find other tenants to make the building financially viable. The result: Maintenance suffered. Bad elevators were the first problem. They took forever to arrive, control buttons didn't work, ground-floor landings were bumpy. Unwashed windows collected a thick layer of grime. At one point in early spring, 1991, the heat went out for weeks. Work halted on completing the building's facade. Then, Solomon put the partnership that owns the place into Chapter 11. According to Herbert T. Weinstein, a Proskauer partner, the two sides are finally close to resolving the problems. "It'll be great to have the windows cleaned after almost two years," says Weinstein. Solomon executives declined to comment.

Eviction is another hazard for tenants. When lenders take over a building, which happens a lot today, they have the legal power to tear up leases—and occupants can end up getting booted. That's

what happened to 15 tenants last year when NCNB Corp. foreclosed on the four-story Lakecrest Building in Nashville and sold it to tiremaker Bridgestone/Firestone Inc. to use as its U.S. headquarters. Despite the availability of offices nowadays, finding the right space and arranging a long-term lease can still be an egregious hassle. The Lakecrest evictees were eventually able to find cut-rate space nearby. "It's over, and we have no hard feelings," says Tom Bonds, an employee at one of the defenestrated tenants, engineering firm Allen & Hoshall Inc.

Lenders to troubled properties can make life difficult for tenants in other ways. Sometimes, they thwart prospective tenants by refusing to O.K. already signed leases out of fear that the deals are too generous. That can hang up the office-space seekers for long periods. E.J. Rhodes & Associates, a Manhattan executive-search concern, got trapped this way when it tried to move to a more prestigious address.

Greycoat Real Estate Corp., the owner and lone occupant of the Fifth Avenue building, dangled a package of goodies in front of Rhodes: a \$33 per-sq.-ft. rent (down from \$42 at its current office), six months'

free rent, and free internal improvements worth \$50 per foot. But the Bank of Nova Scotia, the mortgage holder, balked. Steven J. Liff, a Rhodes partner, says his firm spent six months in limbo and laid out thousands of dollars in legal and architectural fees before the bank finally nixed the deal in November.

The firm has had to start all over looking for a new home, although Greycoat did reimburse Rhodes for expenses. "I guess these things can happen in the market," sighs Liff. Greycoat says it now is trying to sell the building, and the bank declined to comment.

LOCKED IN. Tenants also are thrust into purgatory when partners in a building venture disagree over leasing strategy in a down market. Consider Newport Office Tower, a vacant structure in Jersey City, N.J., owned by Melvin Simon Associates Inc. When the building was still on the drawing board in the late 1980s, The Limited Inc. agreed to lease the entire tower, intending to sublet at then-high rents. By the time construction had finished, though, the market had collapsed. The Columbus (Ohio) clothing retailer and Indianapolis-based developer Simon took to squabbling over how to share the burden. That forced a major financial-services company that had agreed to move in to put its plans on

hold for most of 1991. After shelling out \$150,000 to attorneys, the company walked away last fall.

Tenants often find it's just as hard to get out of a building as in: Landlords are loath to let them out of leases because relocations, if they can be found at all, will pay lower rents. As part of its bankruptcy restructuring, E-II Holdings Inc. offered several hundred thousand dollars to a Los Angeles landlord if he would cancel the lease on a warehouse for its clothing subsidiary, Jody Apparel Inc. No dice. Says K. Corbett Benson, the E-II executive in charge of the talks: "We had to sublease it for a lot less than we're paying in rent."

Lately, many tenants are getting smarter by researching a building's status before signing up. Some are exacting agreements from building lenders to honor leases after a foreclosure. The tenant may be king these days, but his shaky throne still needs some solid shims and braces.

By Larry Light in New York, with bureau reports

RENTS LOOK SWEET, BUT IT'S OFTEN HARD TO MOVE IN AND HARD TO MOVE OUT

**AVAILABLE NOW
LOW RENT/BIG PROBLEMS**

Great space, modern building.
But unreliable elevators,
unwashed windows, erratic
heating. Owning partnership
close to bankruptcy. Move-in
delays possible while owners
squabble over money. If move
in before lender forecloses,
lender may evict

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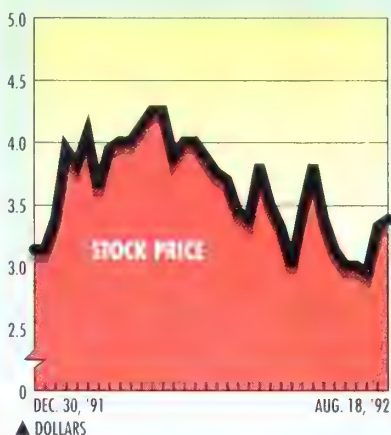
IS TW READY TO LOOK UP SOME LAVORY RESULTS?

One of the nation's largest food-service companies is TW Holdings, with \$3.6 billion in annual revenues from its Hardee's, Denny's, and Quincy's roadhouses and Canteen institutional hash-slinging operation. But its primary distinction can be summed up in a word: debt. TW was the object of a 1989 leveraged buyout by Coniston Partners and Donaldson Sofin & Jenrette. At yearend 1991, TW carried on its books \$2.3 billion of long-term debt vs. \$77 million in shareholder equity.

But TW's balance sheet has been rejuvenated, and some smart investors are wagering on the company. In June, BO giant Kohlberg, Kravis, Roberts engineered a recapitalization, under which TW bought back its junkiest high-coupon debt, and KKR wound up with a 47% stake in the company. True, the hoi polloi on the Street were unimpressed. Share prices of TW common stock—the publicly traded “stub” left over from the LBO—have gone nowhere (chart). But one savvy fund manager predicts a rebound is under way. “There’s no question that TW Holdings has turned the corner,” notes Eric E. Ryback, manager of the Lindner Dividend mutual fund and co-manager of its sister Lindner mutual fund. Ryback expects the company to rejigger its balance sheet still further in the coming weeks. “The refinancing is going to trigger a chain of positive events, probably including the refinancing of some of its bank debt,” says Ryback. That, he feels, will give the company a shot of adrenaline.

PAID TO WAIT. For Ryback, the TW investment vehicle of choice is not the common but rather the preferred shares that were issued in June as part of the KKR deal. The preferred was issued at \$25 a share and now sells for \$28. It is convertible into 6.79 shares of TW's NASDAQ-traded common stock. That works out to \$4.12 a share—slightly over the common's current price. But the common pays no dividend, while the preferred pays \$2.25 annually—an attractive 8.1% yield. Ryback has bought 400,000 preferred shares for Lindner Dividend, noting that it offers “upside potential, and meanwhile you're being paid to wait.”

TW HOLDINGS: STILL STAGNATING



DATA: BRIDGE INFORMATION SYSTEMS INC

How long a wait? The conventional wisdom is dour. Analysts' estimates average a 43¢-per-share loss in 1992 and a 9¢-per-share loss in 1993. But Ryback believes TW is on the verge of showing profits, perhaps 10¢ a share in '93. “KKR is controversial, but don't forget that it has had a string of positive investments,” notes Ryback. The TW preferred gives investors a fairly high-yielding way of finding out if the old KKR magic still works.

A TESTER RIDES THE CHIPMAKING BOOM

Semiconductors are on the rebound. Despite ferocious overseas competition, chip orders rose a healthy 28% in the second quarter. Such tidings are a blessing not just for the chipmakers—Intel, Texas Instruments, and so on—but also serve to boost the prospects of a little-known giant in semiconductors: Teradyne.

Teradyne doesn't make chips. It's a leading maker of automatic test equipment that determines if semiconductors, circuit boards, and other high-tech gizmos are in the pink. And in the view of Mark Roberts, who runs Off Wall Street Consulting Group in Cambridge, Mass., there's no better way of betting on the revival of the semiconductor industry. Teradyne is Roberts' No. 1 stock pick—quite a compliment, since most of his recommendations nowadays are in the realm of short sales, not stock purchases.

Teradyne has a commanding market share in the chip-testing business, and thus it's uniquely positioned to benefit from the upturn in the semiconductor

industry. The company is noted for technological innovation, and it is getting widespread huzzahs for its snazzy new A580 Mixed-Signal Test System and J971 VLSI Test System. “Companies with advanced computers need increasingly complex test equipment, and Teradyne is the world technology leader in its field,” notes Roberts.

Teradyne is blessed with a nearly debt-free balance sheet, and at a recent price of 11½, it's only a modest premium above tangible book value, \$10 a share. Roberts expects that earnings, 58¢ a share in 1991, will rise to 67¢ a share this year and almost double that—\$1.20—in 1993. With a profit rebound in the offing, Roberts thinks share prices will rise as high as 15 to 18 over the next six months.

THIS STUB COMES WITH A SUIT

West Point-Pepperell, a leading manufacturer of bed linens and towels, was taken private in a leveraged buyout three years ago at a price of \$58 a share. But as so frequently happened to '80s-vintage LBOs, things didn't work out quite as planned. In June, parent West Point Acquisition Corp. threw in the towel, filing for a prepackaged Chapter 11 reorganization. The 5% of shares that weren't purchased in the LBO are trading at \$38 apiece.

Is the “stub” a buy? You bet your life, says James Rubin, a general partner of M.D. Sass Re/Enterprise Partners, which has bought into the stub. Rubin believes that West Point-Pepperell's 1.5 million stub shares are undervalued. The company, he feels, is really worth \$43 to \$44 a share. But shareholders have the benefit of another possible “asset,” although management probably doesn't view it as such. A group of stub investors led by Kidder Peabody are suing. They claim, among other things, that it's high time the rest of the shares were bought. (The defendants deny the suit's allegations.) Rubin is wagering that the suit stands a decent chance of resulting in a settlement based on the \$58 offering price plus interest. “They should settle for, maybe, \$65 or so a share,” notes Rubin, who believes that current shareholders would share in the proceeds. Is he right? Well, securities litigation is one growth industry that hasn't been hurt by the recession. And the West Point stub is as close as you can come to a “lawsuit pure play.”

EDITED BY NAOMI FREUNDLICH

THIS COPIER KNOWS A BOGUS BUCK WHEN IT SEES ONE



Color copiers have become a major headache for the U.S. Secret Service, which tracks counterfeiters of the almighty dollar. It seems the latest machines are so good that professional criminals have used them, and office workers are getting the bug.

Copier makers are pitching in to thwart this trend. Two years ago, Minolta Corp. upped the

chances of detection by stamping every color copy with a next-to-invisible code identifying the machine that made it. Now, Canon Inc. is set to announce what could be the ultimate weapon: a chip that tells copiers to ignore currency. The chip contains digitized images of key details from a dozen or so bank notes. When the copier spots an image, the machine won't make a duplicate and spits out a blacked-out copy. Look for anticounterfeiting chips to show up next year—and eventually to become standard equipment on Canon color copiers.

A BREATH OF FRESH AIR TO TREAT TOXIC WASTE

Searching for cheaper, better ways to treat hazardous waste has become a preoccupation for industry. Today, contaminated groundwater at Superfund sites is cleansed by pumping it out of the ground, filtering it, and sending it to a wastewater plant for final treatment. That's an expensive process—and one that researchers at Stanford University now suggest could be done right in the ground, using air bubbles.

The new method, developed by geologists Steven M. Gorelick and Haim Gvirtzman, would use air injected into wells to keep groundwater circulating, the way an aeration unit in a fish tank works. Volatile organic compounds, such as benzene and carbon tetrachloride, would be attracted to the air bubbles and transported as gases to the surface, then vacuumed off and filtered, while the water remains below. Theoretically, this would save millions of dollars in transportation and energy costs. Stanford has patented the process, and along with partner Pacific Northwest Laboratories is seeking government approval to test it at a tainted site near Hanford, Wash.

COMPUTER VIRUSES ARE SMART, BUT THESE VACCINES ARE SMARTER

Attacks by computer viruses seem sure to become more common—and deadly. In two years, the number of known viruses has jumped from 200 to nearly 1,500. Moreover, some new strains can't be detected with conventional antivirus methods. That's because the Mutation Engine and similar viruses are designed to change themselves by altering their code each time they infect a new piece of software. These so-called polymorphic viruses then elude countermeasures that look for a known "fingerprint." Polymorphic viruses are believed to have originated in Bulgaria, where "virus factories" produce

an estimated 20% of the 40 new strains that appear each week.

Virus-busters have responded quickly with "smart" antivirus vaccines that use artificial intelligence to spot infection bytes before they cause much pain. For example, Centipoint Software in Beaverton, Ore., says its program will warn users to shut down even when a virus is so novel that an antidote yet exists. Tests of 16 antivirus programs by the National Computer Security Assn. in Carlisle, Pa., also gave top marks to ones from Microcom in Durham, N.C.; Pan Software in Wilmington, Del.; Frisk Software in Reykjavik, Iceland; s&s International in Berkhamsted, England; McAfee Associates in Santa Clara, Calif.; Parsons Technology in Hawthatha, Iowa; and Leprechaun Software in Marietta, Ga.

THE GULF WASN'T HIT AS HARD AS SCIENTISTS THOUGHT

One of the biggest losers in last year's war in the Persian Gulf seemed to be the environment. By war's end, the gulf was awash in millions of barrels of oil. Hundreds of millions more were going up in flames and acrid black smoke. Researchers worried that much of the marine life in the fertile Persian Gulf would succumb to pollution.

That's why James W. Readman, an organic chemist at the Marine Environment Laboratory of the International Atomic Energy Agency in Monaco, was so surprised when he and a team of scientists measured the pollution in the gulf months after the war ended. As reported in the Aug. 19 issue of *Nature*, much of the oil that spilled into the water was rapidly being degraded. In addition, contamination from the toxic byproducts of oil-burning was similar to levels found in places along the northeastern coast of the U.S. In fact, some samples from gulf sediments and shellfish showed less oil pollution than in the years before the war. The reason, says Readman, is that the war curtailed tanker traffic and other oil operations, dramatically reducing "normal" pollution from the sources—about 2 million barrels a year.

'HAIRY CARBON' COULD BE THE NEXT WONDER CONDUCTOR

No, it's not a baldness cure. "Hairy carbon" is a new material developed by Debra D.L. Chung, an engineering professor at the State University of New York at Buffalo. The tiny carbon filaments—each about 1,000 times thinner than a human hair—are superior electricity and heat conductors. They could be used in fashioning small, long-lasting batteries and conductive polymers.



Increased conductive ability comes from the material's network of superfine fibers. A lithium battery electrode made from the filaments lasted 50% longer in tests than a standard cell, in part because the carbon "hairs" allowed the electrolyte to squeeze through and fully use the electrode. Ultrasmall batteries made from the material could be used in biomedical implants or for aerospace jobs. Chung next plans to mix the filaments into polymers to create conductive composites, which could be molded into shielding for sensitive instruments.

THIS HDTV PIONEER SEES A BETTER WAY

Bill Schreiber claims FCC-favored systems won't be reliable

As a Massachusetts Institute of Technology professor in the mid-1980s, William F. Schreiber led a crash effort to develop new broadcast technologies. He succeeded so well that his former students are working on two of the five high-definition television proposals now before the Federal Communications Commission. So when Schreiber warns that the drive for all-digital HDTV systems is headed for trouble in field trials next year, his opinion carries some weight. "In a sufficiently realistic test," he insists, "the digital systems will suffer reliability problems." And unless such failures are remedied quickly, they could seriously delay the biggest TV advance in 50 years.

HDTV backers say Schreiber is wrong. But in case he isn't, he's preparing to step into the breach. Though semiretired at age 66, the diminutive electrical engineer has scraped up \$150,000 from Sci-Tek Corp., the Israeli maker of publishing systems. On this shoestring budget, he and four student researchers are mounting a belated quest for a new approach—called spread-spectrum technology—to coding signals for transmission. Today's radio and TV stations send high-power signals over narrow frequency bands, or channels—e.g., Channel 7. The FCC and broadcast equipment makers plan to squeeze low-power HDTV digital signals into the empty channels between these existing ones, and that's where

Schreiber fears a glitch. He says a digital signal, packed densely with images converted to computer language, can be easily garbled by interference from buildings, storms, or planes, or just the cacophony of other broadcasts.

In theory, at least, spread-spectrum broadcasting should be more reliable. Based on military radio-communications advances, it divides a signal into 1,000 equal pieces distributed throughout a channel. Most interference would affect only a few of these pieces, leaving the overall signal free of snow and ghost images. This approach is so effective for evading radio jamming and eavesdropping that the Pentagon had long barred its commercial use.

BROAD APPEAL. The ban was lifted in 1978, and several companies are now developing spread-spectrum systems for cellular phones. Schreiber's work, which he hopes to complete in a year, would extend the technology to images. His idea is to encode a picture digitally, then broadcast it using conventional analog wave transmission. The TV set would convert the signal back to digital form,

producing a superclear picture. If this approach pans out, it might hold down the cost of advanced TVs, which wouldn't need the exotic ghost-cancellation components now envisioned for them.

Spread-spectrum could also mesh with another emerging technology. Last May, the FCC's Advanced TV Advisory Committee decided to study so-called single-frequency networks. Current broadcast transmitters are so powerful that Channel 4's in New York, for instance, must be 155 miles from Channel 4's in any other city or the two will interfere.

Single-frequency systems, which have been demonstrated in Sweden for digital radio, reduce the required separation to just two miles by replacing a high-power antenna with a network of low-power ones. The same channel could be used more than once in the same general area, and the 40 channels that typically go unused might be freed, easing a

battle over spectrum space between broadcasters and cellular-phone operators. Schreiber says not all digital HDTV can make the conversion—but spread-spectrum can. The technology "will appeal to everybody," he declares, "regulators, broadcasters, and viewers."

Schreiber has always liked competition. MIT's Advanced Television Research Program, which he launched in 1983 for the broadcast industry, eventually joined the avant-garde MIT Media Laboratory, which was raking in grants from industry and government. By 1988, however, Schreiber and Media Lab Director Nicholas Negroponte were at odds over the lab's open-door policy,



SCHREIBER: A NEW APPROACH WITH A \$150,000 BUDGET

SPREAD-SPECTRUM BROADCASTING: HOW IT WOULD WORK

HDTV pioneer William F. Schreiber thinks HDTV broadcast signals will be highly susceptible to interference. The reason: The signals will pack much more information than standard TV signals. His solution: A technique the military has used to keep messages from being jammed

A computer coder divides an HDTV signal into 1,000 equal pieces. These are spread evenly across a 6 MHz channel and transmitted the way conventional analog signals are now. Each piece is so small as to prevent the overall signal from being disrupted

In a viewer's living room, a converter in the HDTV set redigitizes the signal, turning it back into computer code. The device then reassembles the 1,000 pieces into the original signal, which delivers a supersharp broadcast image

DATA: WILLIAM F. SCHREIBER

which let the Japanese see Schreiber's work. He and his group walked out.

He also has an entrepreneurial streak. Before joining MIT in 1959, he spent six years at movie icon Technicolor Corp., setting up its first electronics research effort. He co-founded two companies while at MIT, including ECRM Inc. A maker of electronic publishing systems, it sells scanning equipment for desktop production.

The professor could be tilting at windmills this time. His band of researchers is competing with AT&T, Zenith Electronics, and General Instrument, all of which sport huge HDTV budgets. Moreover, the FCC quit accepting new systems for testing in June, 1990. That's when Schreiber started his spread-spectrum work, which isn't yet in the prototype stage. The agency has since indicated a clear preference for an all-digital system. "Bill is probably right," says Tony Yttendaele, director of advanced television systems at Capital Cities/ABC Inc. "But if he can't build it now, the train is moving."

Indeed, the last of the five proposed systems will be tested in September, with field trials expected a few months later. Former FCC Chairman Richard E. Wiley, who heads the committee responsible for HDTV testing, won't rule out reopening the competition, but he adds: "It would be difficult." The three all-digital U.S. finalists have agreed to share technology and royalties if one of them wins. So even if no system is perfect, the FCC could fuse those three into one rather than solicit new proposals.

CLEAR VISION. It's too early to count Schreiber out, however. "He started off as a lone voice on things that are now widely accepted," says Gary J. Tonge, controller of engineering at the Independent Television Commission, a British regulatory body. Five years ago, when U.S. broadcasters proposed tweaking current television to improve picture clarity, Schreiber was one of the few experts to call for a new system—HDTV. And he has long maintained that HDTV would not use more spectrum than conventional TV, a fact broadcasters and the FCC only recently accepted. He thinks spread-spectrum will prove him right a third time: "If things turn out the way I expect, we'll have a system ready when it's needed."

Schreiber has beaten daunting odds before. In 1987, he argued against making an HDTV production system designed by Japanese national broadcaster NHK the U.S. standard. That meant opposing the State Dept., CBS, and PBS executives, yet Schreiber's view won out. "HDTV means money and jobs," he told Congress then. That's still true. And if the all-digital systems run into trouble, he could end up squarely in the picture.

By Gary McWilliams in Cambridge, Mass.

Information Processing

COMPUTERS

THE JAPANESE JUGGERNAUT THAT ISN'T

Japan's computer makers are running into roadblocks in the U.S.

In the late 1980s, a tremor shook the U.S. computer industry. Japan's electronics giants, it seemed, were ready to take on computers. And if their track record in consumer electronics was any guide, Silicon Valley would soon resemble Detroit. In mainframes, Japanese suppliers and their U.S.-based affiliates had captured 20% of the world market for IBM-compatible systems. Japanese supercomputers were as fast as Crays. And Japanese suppliers were pushing into new markets such as personal computers and workstations.

The most ominous sign was Japan's enormous success in laptop PCs. While IBM, Apple Computer, and Compaq Computer struggled to get into that fast-growing market, Toshiba, NEC, and other Japanese suppliers quickly took the lead. By 1989, the Japanese had a 43% share of U.S. sales.

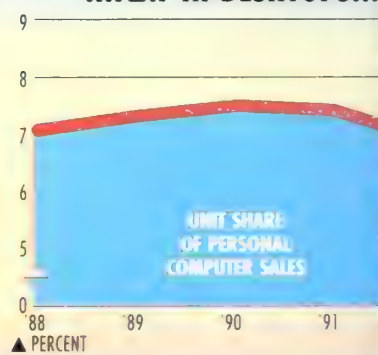
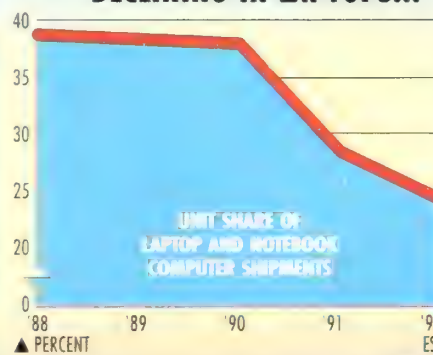
Most troubling was how they did it—by dominating critical technologies needed to make laptops. Having mastered memory chips and flat-panel displays, they seemed poised, as one popular metaphor had it, to "move up the technology food chain." As builders of these key parts, they'd be able to move faster, manufacture more cheaply and, pundits warned, hamstring Western competitors by delaying their access to similar parts. And, like Japanese business in general, computer makers enjoyed cheap capital and patient investors.

So, where's the Japanese juggernaut today? Has it gained any ground against Western suppliers? Surprisingly little, in fact. And the high-profile beachhead that Japanese laptops established has eroded badly (chart). Toshiba Corp., Japan's most visible success in the U.S., says it's only a temporary setback. The company's share of the U.S. laptop market has dropped to 14%, from 21% in 1991, but "we don't plan to go any lower," says Hisatsugu Nonaka, senior manager for overseas PC planning and marketing. His strategy: hold tight through a shakeout of poorly financed Asian clonemakers, then hit the market with laptops using leading-edge screen technology. Rival NEC Corp. is poised to renew its American efforts with an investment in Control Data Corp.

LEAN AND MEAN. Restarting Japan's U.S. computer surge may not be so simple. In the past few years, American computer makers have become tougher competitors. Faced with economic recession and a fundamental transformation of the business fueled by accelerating advances in the speed of inexpensive microprocessors, they've eliminated thousands of jobs, suffered huge financial losses, and struggled to restructure themselves.

At least for now, newly strengthened U.S. suppliers are keeping the Japanese threat in check. In workstations, a critical and fast-growing market in the

JAPAN'S PROGRESS IN THE U.S. COMPUTER MARKET DECLINING IN LAPTOPS... ...FLAT IN DESKTOPS...



DATA: INFOCORP, INTERNATIONAL DATA CORP.

TOSHIBA HOPES TO WAIT OUT THE LAPTOP SHAKEOUT, THEN WIN THE MARKET WITH STATE-OF-THE-ART SCREEN TECHNOLOGY



s, U.S. companies continue to dominate, with a 90%-plus worldwide share. Meanwhile, Sony Corp. and Oki Electric Industry Co. Ltd., two Japanese suppliers that tried to sell workstations in the U.S., have quietly withdrawn.

For personal computers, too, the U.S. rules. Intel, Microsoft, and Apple dominate virtually all of the important technology rules that manufacturers around the world now follow. Taiwanese and Korean PC makers have gained substantial market share with ultralow-priced PC clones. But NEC, the leading Japanese PC brand, ranks only 14th in the U.S., with a mere 1.5% share. In laptops, Toshiba has been forced into the relatively small, high-priced segment of the

U.S. market. NEC, a pioneer seller of notebooks in the U.S., has fallen behind. Instead, NEC is defending its lead in Japan's PC market. "If it were ever perfectly secure, we could think about America," says Takehiko Inoue, NEC's associate senior vice-president for computer systems. "But that's years away."

Japan has done only a little better at the market's upper end. Cray Research Inc. still leads, and Western manufacturers are ahead in the latest high-performance computer design, called parallel processing. And Japan remains virtually absent from the U.S. minicomputer arena. The one place where Japanese suppliers are still making gains is in mainframes. But combined, they have only a fraction of IBM's sales, and that market is barely growing.

Why this surprisingly poor showing by Japan? Western computer executives cite many reasons, involving strengths and weaknesses on both sides. The rising value of the yen, for example, has made it harder for Japanese suppliers to keep up with price cuts in the PC market, says James R. Berrett, chief operating executive at NEC Technologies Inc. in Boxborough, Mass. He adds that the plunge in Tokyo's stock market has raised capital costs. Meanwhile, the global recession and a sluggish home computer market are squeezing profits. Fujitsu Ltd., the No. 1 computer maker in Japan, just announced a 69% earnings drop.

But while the Japanese were feeling the pinch, competitors in other East Asian nations found abundant funding. "The Taiwanese capital market threw money at anyone who looked like they could put a computer together," says Daniel M. Crane, senior vice-president for sales and marketing at Librex Computer Systems Inc., a notebook computer maker in San Jose, Calif., that is funded by Japan's Nippon Steel Corp. New chips from U.S. manufacturers made it easy for any clonemaker to create a laptop. Suddenly, Toshiba lost a key advantage: It had been building such chips itself—and not selling them to others.

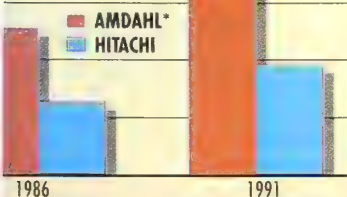
LITTLE LEVERAGE. Japanese computer makers have also been victims of their own conservatism. Toshiba's Nonaka hints that the company didn't want to appear too aggressive on pricing for fear of inflaming anti-Japanese sentiment. So, Toshiba took its pricing cues from Compaq and IBM. That left prices of Toshiba's laptop machines high in relation to Taiwanese imports.

Strength in memory chips and other computer components has not given Japanese suppliers as much leverage in complete systems as had been expected, either. For starters, some of the leverage has disappeared. In memory chips, Japanese suppliers now face strong competition from Korean makers.

Besides, the chip divisions of Japan's electronics conglomerates generally need to sell their components to all com-

STRENGTH IN MAINFRAMES

DOLLAR SHARE OF LARGE-SCALE SYSTEMS MARKET



*AMDAHL IS 43% OWNED BY FUJITSU

PHOTOGRAPH BY GEORGE MICHEL (CHART BY ALBERTO MEJIA-BW)

supercomputers in the U.S. and Europe. NEC and Control Data CEO James Owens says he has signed a letter of intent to acquire a minority stake in NEC. NEC has bought two European computer makers, ICL and Nokia, and started selling supercomputers in the U.S., using its first direct-sales force. This fall, NEC will unveil a super it says outperforms Cray's best.

A man with grey hair and glasses, wearing a red polo shirt, is operating a large industrial machine. The machine has several vertical monitors or displays. He is looking at the machine and has his hands near the controls. The background is slightly blurred, showing what appears to be a factory or industrial setting.

In the all-important microcomputer market, Japanese suppliers are about to give up, either willingly or not. "Toshiba is not one of the companies that's going to get shaken out" in the current price wars, says Toshiba's Nonaka. "We have brand recognition, and we have deep pockets."

new consumer markets for Toshiba.

By John W. Verity in New York
with Neil Gross in Tokyo, George
McWilliams in Boston, and bureau
reports

D BY PAUL M. ENG

ORDERING BY PHONE? NOW YOU CAN PAY BY CHECK



It's a vexing problem for telemarketers: How do you sell to customers who don't have credit cards? You could wait for a check, of course, but the buying impulse might fade before the consumer gets around to mailing one. Or phone clerks could take down all the checking account information, such as the exact name and location of the cus-

omer's bank, but that's often a hassle. Now, PhonChek Systems Inc. in Bethesda, Md., has simplified the process. Customers simply read off the string of digits at the bottom of one of their checks. The merchant faxes the digits to PhonChek, which uses them to identify the customer's bank. PhonChek then creates a check in the customer's name from a blank piece of paper and puts it through the mail system as if the customer originated it. "It's been absolutely a salvation of my company," says one PhonChek customer, Ed Nunley, owner of National Publishing Co., of Nashville, Tenn., who sells a federal job information publication by phone.

FUZZY PROGRAM FOR CRUNCHING 'WHAT-IF' NUMBERS

The real power of spreadsheet programs such as Lotus 1-2-3 and Microsoft Excel is their ability to combine formulas and data in each cell. Since the programs automatically recalculate the answers every time an entry is changed, spreadsheet owners can play "what-if" games—to see how loan payments change as interest rates drop, for example. But it takes a lot of thought to figure out which what-if scenario to test. Tiny Knoxville (Tenn.) FuziWare Inc. says it has a way to make this process easier.

The secret to the \$795 FuziCalc program, due out next month, is fuzzy logic, a form of artificial-intelligence programming. Data can be either substantiated figures—the number of toasters sold last year—or "fuzzy" data—the number you expect to sell next year. Each entry is really a range of numbers reflecting a user's belief of what can happen. Think of it as a way to express "probably," "maybe," and "if we're really lucky" in a spreadsheet. Calculations are plotted on a graph, tracing the range of possibilities, with the most probable outcome at the peak.

THIS PEN COMPUTER MAY HAVE STAYING POWER

Pen-based computers have been ballyhooed as the next blockbuster product in the PC world—the only question is, when? So far, high prices, short battery life, and the lack of 100% accuracy in handwriting recognition have severely limited sales. But in September, privately held PI Systems Corp. in Portland, Ore., plans to start shipping a notebook-size pen

computer that challenges some of those barriers. Weighing under 3 pounds, the \$1,895 Infolio runs for 12 hours on six AA batteries. While it can do such tricks as capture signatures, Infolio doesn't use the MS-DOS software used by IBM-compatible PCs. PI says the product should appeal to customers doing specific tasks, such as insurance claims adjusters.

Meanwhile, the slow development of the pen market has sidelined an industry pioneer. Momenta Corp. in Mountain View, Calif., is shutting down only three years after opening. Last October, Momenta made a big splash with its advanced pentop. But the high price—\$4,995—and production delays doomed the machine. In early August, the privately held company laid off most of its 50 remaining employees. Momenta backers are seeking buyers for the company's technology.

NETWORK BUILDING, WITHOUT TEETH-GNASHING

Building small PC networks can be a daunting task, even for the technically adept. It's easy to get all tangled up choosing wiring, software, and the plug-in adapter cards needed to set up a typical local-area network (LAN). Now, an arm of Alliance Research Corp., a maker of accessories for computers and cellular phones based in Chatsworth, Calif., is offering a low-cost LAN kit designed for customers who can't stand the thought of opening the boxes to link PCs together.

Data Spec's Let's Talk entry-level package, listing for \$279.95, provides gear to connect two computers. Rather than diving into the guts of your computer, you simply connect Data Spec's networking cable to the standard printer port found on most IBM PC-compatible machines. Each additional PC, up to a maximum of 200 computers and 600 printers, costs \$139.95. What's more, Let's Talk is so simple, even mass merchandisers such as Circuit City Stores Inc. and Brands Mart Midwest will be able to sell network setups without hiring technical sales personnel, Data Spec says.

'IF YOU WISH TO PURCHASE THE ERTE, PRESS "1" NOW'

For art dealers, finding a gallery or dealer offering an Andy Warhol *Jackie O* can be quite difficult. But in September, a scheme will allow art galleries around the world to buy and sell art electronically at the touch of a telephone keypad.

The Art Research & Trading Cooperative (ART Co-op), in Santa Fe, N.M., is a network of IBM-compatible computers equipped with Dialogic Corp. "call-processing" circuit cards and software—the kind used by bank-by-phone systems. After entering their personal ID number, ART Co-op members can scan current offerings, make a bid for a piece, or even search for works of a particular artist in a data base of 16,000 contemporary American artworks offered by over 1,000 American and 300 Japanese dealers, just by punching in the correct codes from an ART Co-op catalog. When a sale is made, the network automatically faxes confirmation letters to both parties and updates its data base.





TH
EN

With its ability to transmit vast amounts of information, fiber optic cable has fast become the mainstay of the information age. Today telephone, video, audio

THANKS TO AMOCO, and computer data **THERE'S LIGHT AT THE** fiber optic cable. **END OF THE BUNDLE.** And quite soon, all information may be transmitted this way.

Unfortunately, just a little bit of moisture can bring it all to a dramatic halt. Moisture is one of fiber optic cable's biggest enemies; it can seep into an open cable during installation or repair, migrate along the shaft and eventually cause cable failure.

But now a material made with polybutene from Amoco Chemical Company is halting the progress of moisture. This "cable-flooding" compound fills the interstitial spaces and irregularities between the cable core and layers of corrugated steel armor and jacketing, effectively sealing the cable off from damaging moisture.

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BusinessWeek

JOHN HENDRICKS: THE CONSCIENCE OF CABLE TV

his Discovery Channel, good TV is good business—so far

Countless Americans were steamed during the New Hampshire primary when ABC News cut off candidate Bill Clinton's concession speech in sentence to air a commercial. But in S. Hendricks was in a position to something about it. The next morning, the chairman of the Discovery Channel offered each major Presidential candidate 20 minutes of free time on his work, at a cost of \$500,000. "We have healthy dissatisfaction around here about the quality of TV," he says. Discovery is best known as the cable channel that airs recycled wildlife documentaries. But that didn't stop 1.5 million people—more than CNN draws in prime time—from tuning in to the speeches and a debate that followed. Hendricks lost money, but he won high praise for adding substance to a campaign of endless sound bites. "He could be the saving grace for TV in this country," says former CBS News anchor Walter Cronkite, who moderated the debate. Discovery's 40-year-old founder is out to prove that good TV can be good business. While he's not exactly William S. Paley, his science, nature, and public-affairs channel has found a profitable niche in a notoriously difficult business. According to cable consultant Paul Kagan Associates, Discovery will have operating income of \$29 million on \$153 million in revenue this year. And after years of struggle, the channel now reaches 57 million homes, making it America's fifth-largest cable network in terms of market penetration (table).

'S GOING TO HURT.' The question is whether Discovery can keep the momentum going. Hendricks, who is part savvy businessman, part social activist, has persuaded some heavy hitters to back his idea of what educational TV can offer. But now, he faces a major test. Hendricks is expanding Discovery's independent production of new programs just as Congress is threatening to regulate cable rates. That would allow cities to cap what cable operators charge the public, which in turn would limit the cash flowing back to cable networks in the form of programming fees. Discovery relies on such fees for half of its revenue.

"There's no question it's going to hurt a lot of programmers," says Frank J. Biondi Jr., chief executive of Viacom Inc. Ever since he launched Discovery in 1985, Hendricks has had to fight the ubiquitous notion that educational fare doesn't sell. He has thrived not by shaming people into supporting his vision but by convincing those with money that they can profit by it. While many cable

when he first thought of Discovery. As a teenager in Huntsville, Ala., he had always liked documentaries. And at the University of Alabama, he poured over film catalogs as part of a work-study job buying films for the history department. In 1982, with cable deregulation promising to expand the number of cable channels, fund-raiser Hendricks got an idea. Why couldn't he buy the rights to old, but interesting, documentaries produced by outfits such as the Public Broadcasting Service and form his own network to air them? Not surprisingly, venture capitalists scoffed at the plan. After all, they noted, CBS Inc. had just canceled Cronkite's heady *Universe* series.

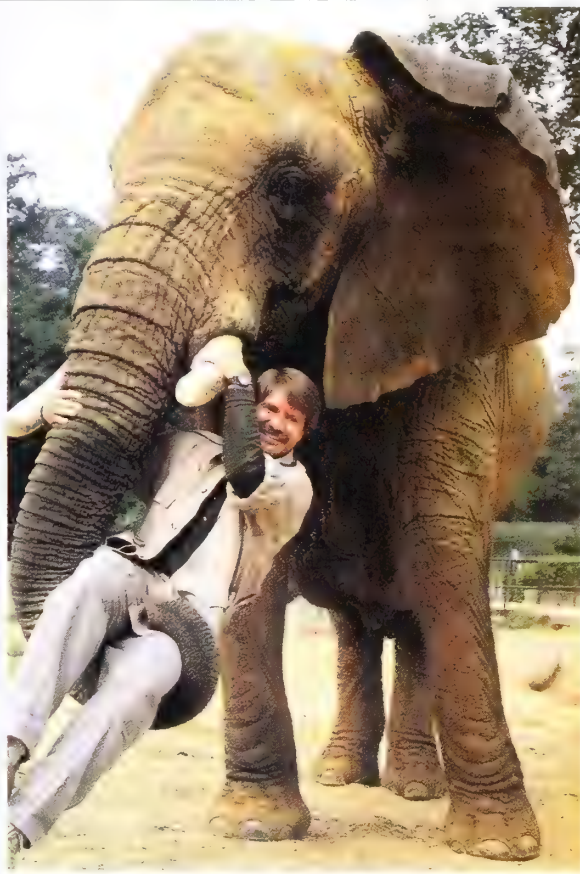
CALLING CARD. Upon hearing the *Universe* gripe enough times, Hendricks wangled a meeting with Cronkite to find out what had gone wrong. The series had failed, Cronkite said, not because of

CABLE TV'S HIERARCHY

Network	Penetration*
ESPN	65.6%
CNN	65.0%
USA	64.3%
TBS	63.9%
Discovery	62.8%
Nickelodeon	62.3%
TNT	62.3%
MTV	60.9%
Family	60.5%
Nashville Network	60.5%

*Percent of all households with a TV

DATA: A. C. NIELSEN CO.



HENDRICKS: BIG PLANS TO MOVE BEYOND WILDLIFE RERUNS

execs, such as John C. Malone, chairman of Tele-Communications Inc. (TCI), are known as combative empire builders, Hendricks' style is disarmingly low-key. Says Viacom's Biondi: "He's just a decent, nice guy—and it doesn't seem to have hurt his network."

Hendricks is, indeed, an unlikely cable executive. He was working as a consultant helping universities raise money

poor ratings but because its highbrow audience didn't stay tuned to the sitcoms that followed. In other words, *Universe* did fine, but it failed to "build audience" for the rest of the evening. Armed with a letter from the most trusted man in America, Hendricks cobbled together \$5 million from Allen & Co., New York Life Insurance, and Group W Satellite Communications. That bought rights to 4,600

hours of films from such sources as the National Geographic Society and PBS.

For a while, it looked as if the venture capitalists might be right. Despite Hendricks' enthusiasm and Cronkite's endorsement, few cable operators wanted to waste precious channel space on animals. By 1986, a year after Discovery's launch, Hendricks was nearly broke.

He ultimately survived by becoming a pilot fish in an industry swimming with sharks. To get the distribution that lures advertisers, he convinced the big boys that Discovery's all-American fare would help them win and keep their local cable franchises. In June, 1986, he sold 56% of Discovery to four of the nation's top cable operators—TCI, Cox Cable Communications, Newhouse Broadcasting, and United Artists Entertainment (now owned by TCI). That pumped \$20 million into the coffers—and helped reach millions of new subscribers overnight.

FRESH AIR. These days, Hendricks' challenge is developing original programming rather than relying on old documentaries. In April, he aired the channel's most ambitious program to date, a \$1.5 million film called *In the Company of Whales*, which won the network its first Emmy nomination. And he recently hired Cronkite's new production company to develop a series of one-hour films on great books, such as Henry Thoreau's *Walden*. The series could cost more than \$10 million.

Advertisers seem to like the mix. Paul Kagan estimates that ad sales have jumped from \$46 million to \$86 million since 1990, as Audi, Kraft General Foods, and Apple Computer have signed on. To lure even more ads, Discovery has created a pair of "reality-based" shows to air this fall. In one, Alex Trebek of *Jeopardy!* fame will host *Heart of Courage*, a series about people who become heroes during crises.

All that costs money, of course. And with the restrictive cable legislation expected to emerge from Congress this fall, Hendricks finds himself in a particularly sticky spot. Last year, he persuaded his board to plunk down \$32 million for The Learning Channel in a strategic move to get a lock on the educational-cable niche. The fledgling network, which airs everything from an astronomy series to demonstrations of brain surgery, is losing money. And Hendricks figures it will cost \$100 million to improve its programming enough to expand its paltry distribution.

Hendricks has vision. But current projects are likely to soak up all the kindness his well-heeled investors have to offer. As he ventures past the low-cost strategy he started with, Discovery's founder needs to discover a new source of cash to keep his dream alive.

By Mark L. Wyn in Bethesda, Md.

Industries

AIRLINES

THE SEASON OF UPSTART STARTUPS

New airlines are taking off, but there's rough weather ahead

Consolidation, any airline expert will assure you, is the future of aviation. But don't tell that to fledgling Reno Air. Or Kiwi International Air Lines. Or American Dreams, Miami International, Patriot Airlines, Spirit Airlines, Airmark Aviation, or any of the dozen or more tiny new carriers pushing eagerly into the skies these days. Even as the industry continues to shake out, sending weaker airlines toward extinction or into the embrace of powerful competitors, ambitious new players have begun spreading their wings.

Foolhardy? Less adventurous souls might see it that way—and could point to the abysmal record of airline startups over the past decade as apparent proof. But in many ways, the climate for startups is suddenly better than it has been for years. A glut of used aircraft has pushed prices for many models down to historically low levels. With the demise of Pan Am, Eastern, Midway, and several smaller carriers, experienced pilots, flight attendants, and mechanics are fairly begging for work. Airport gates have become available in areas that were abandoned by defunct carriers. Even Congress is moving to help: In mid-August, it approved legislation that would help new carriers gain speedier access to unused gates when existing carriers fail.

SEED MONEY. Such conditions have produced a flood of potential entrants after years of slow activity. George Pearson, a vice-president at aviation consultant Avitas Inc., which advises potential startups and investors, says that over the past three months, "we've been getting an average of one request [for advice] a week. It's been quite a phenomenal change."

Of course, obstacles to takeoff remain, and not everyone with a dream and an airplane will leave the ground. The investment community soured on startups by the late 1980s, and few banks will go near such risky ventures. Several airline hopefuls, including KC Air of Kansas City and Baltia Air, even lined up planes only to find no one willing to supply the dough. Baltia, which hopes to run direct flights to the former Soviet

Union, claims it is finally wrapping up financial package. And carriers enterprising enough to raise seed money need access to additional capital to keep aloft should the going get rough.

The key to survival is finding the right market. With estimated startup costs of \$5 billion to \$10 billion, few experts expect to see a new major carrier soar up to compete with the Big Three. If a startup is willing to think small, however, and can find an underserved niche where flights are in demand, it has a healthy shot. Here, then, are three that are trying.



STRATEGY: Match competitors' lowest fares on unrestricted basis, targeting small-business fliers

Kiwi International is shining proof of labor's desperation. Its employees will work for half what their counterparts at major airlines earn. Its pilots, flight attendants, and mechanics dip into their own pockets for the \$7 million Kiwi needed to fly. As the airline goes, so goes their money.

Scheduled to begin flights in September, Kiwi will start with just two leased 727 aircraft, flying from Newark, N.J., to Chicago's Midway Airport, Atlanta, and Orlando. "The name of the game is to match your capital with what you've got," says Chief Executive Robert Iverson, a veteran pilot of Eastern Air Lines Inc. Any expansion, he says, will be funded from operating revenues.

LEGROOM. Kiwi's target is the small-business or leisure traveler eager to save money, but without the flexibility to book in advance. The airline will peg its fares to the lowest prevailing rates in a given market and offer them on an unrestricted basis. So while Delta Air Lines Inc. might advertise Newark to Atlanta for \$130 but free up only a dozen seats at that fare and require a 14-day advance purchase, Kiwi would se



KIWI'S IVERSON ISN'T AFRAID OF THE MAJORS: "WE'RE MORE HELP TO THEM ALIVE THAN DEAD"

150 seats on its 727 at that price, even the day of the trip.

Iverson recognizes the danger in challenging the majors, but says he isn't worried. As long as an upstart doesn't garner more than 10% of the market on any given route, the powerful airlines won't go after it. In fact, as worries mount about the threat of oligopoly, the airlines will have strong incentive to create upstarts. Says Iverson: "We're here to help to them alive than dead."

Kiwi's plan calls for expansion within 10 years to a half-dozen markets along the Eastern Seaboard. But remembering the mistakes of Midway Airlines Inc., America West Airlines Inc., and others, Kiwi's CEO vows to guard his ambitions. "It's absolutely axiomatic in the smaller line business that if you stay in your lane, you're successful," says Iverson. "If you get out, you're out of business."



STRATEGY: Use Reno's lure as gambling and ski center to draw tourists from West Coast and, eventually, from East Coast

Reno Air Inc.'s name defines its market. Launched in July after two years of planning, the airline's inexpensive, full-service flights take passengers to Reno from Los Angeles, San Diego, Portland, Ore., and Seattle. "This airline

has a clear reason for being here," says Jeff Erickson, a founder and former president of Midway Airlines Inc.

That clear reason is tourism. The Nevada city's year-round population is 140,000, but Erickson notes that 7 million people visit annually, primarily to gamble. Add to that the nearby mountain ski and golf resorts lining Lake Tahoe, and you've got "a four-season resort area," he says. To encourage people to think of Reno Air, Erickson has teamed up with hotels and gaming operations. Beginning in September, the airline's sales staff will offer passengers discounts for hotel rooms and resorts.

Reno, which started with one leased MD-80 and has expanded to four, is also trying to tap into the growing market

between Southern California and the Pacific Northwest. Erickson hopes to lure fliers who would normally travel non-stop on major carriers from, say, Los Angeles to Seattle by deeply discounting tickets on his airline, which stops over in Reno. The airline is also offering upgrades to first class. Erickson estimates that Reno's same-day, first-class ticket costs less than half the same-day coach fare charged by four of its five competitors.

Critics caution that Reno may still have trouble unless it can bolster local traffic to fill out its business. That's a pretty weak market now. But local boosters are betting that if the economy improves, Reno will experience the same sort of explosive growth enjoyed in the 1980s by Las Vegas, Phoenix, and other desert Sunbelt meccas.

EASTWARD HO. Reno has the distinction of being the first airline startup in several years to complete a successful initial public offering. Instead of going to such giant investment houses as Kidder, Peabody & Co. or Merrill Lynch & Co., Erickson used a smaller, regional outfit—Paradise Valley Securities of Phoenix—that has a good track record with local investors. Reno raised \$2 million initially through the sale of convertible debentures, and \$6 million in an equity offering in late spring.

Reno's plan calls for revenues of \$47 million and profitability after its first year in the air. If all goes well, Erickson says he'll add service to additional cities, including one on the East Coast. The

airline's slogan, "the biggest little airline in the world," is more than just a salute to the motto of its hometown. It's a commitment—with emphasis on the word "little." Says Erickson: "We're not looking to pick any fights."



STRATEGY: Exploit niche markets along East Coast, tapping passengers abandoned by Eastern, Pan Am, Midway

Guy Lindley, a founder and president of Destination Sun Airways in Fort Lauderdale, Fla., is on the verge of getting his startup off the ground, but he says he's not frightened by the woes most airlines are suffering: "The time to [start] is when blood is flowing in the street." Nearly every large carrier is losing big money, but "if you look at niche carriers—Southwest, Atlantic Southeast Airlines, and Alaska Air Group...it's hard to find one not making money hand over fist."

Although a hot state for startups, Florida is also known as a killer market. But with the grounding of Eastern, Pan Am, Midway, and now Braniff, Lindley says he sees "tons and tons of business" for new competitors along the Eastern Seaboard. Lindley hopes to begin scheduled service from Long Island's Islip Airport to Fort Lauderdale and West Palm Beach by November and add service to niche markets in Newark, N.J., Boston, and Providence by Christmas.

FEWER BIRDS. Lindley, who was an investor in airline Northeastern International, which failed in 1986 after six years, has an ace up his sleeve: running charter. The airline has already contracted for charter service starting in September from Newark to Aruba and Las Vegas. That market is a big one, Lindley says, because cruise lines and hotel and casino operators help attract tourists by arranging air service. And "there's a real dearth of charter capacity since Eastern, Pan Am, and Midway are out," he says.

With four planes instead of eight, Destination Sun will have to grow slower than originally planned. The airline was unable to secure underwriting for its offering and had to sell equity directly to the public. It has raised only \$3.7 million of a hoped-for \$16 million.

Yet no matter how tough the financing, Lindley says, "there's never been a project where all the factors for success—retail price, capital equipment, and people—have been better."

By Andrea Rothman in New York, with Gail DeGeorge in Miami, Eric Schine in Los Angeles, and bureau reports

DU PONT'S TRAILBLAZER WANTS TO GET OUT OF THE WOODS

Ed Woolard has been shrinking or spinning off businesses he once saw as engines of growth

Ed Woolard, 58, is a trailblazer. He was the first DuPont executive to lead a major division outside chemicals, and he was the first to lead a major division inside chemicals. He was the first to lead a major division outside the U.S., and he was the first to lead a major division inside the U.S.

Unionists, cheered on by religious groups and the Reverend Jesse Jackson.

Woolard's early tenure as CEO was marked by a series of successes. He led DuPont through a period of rapid growth, and he was instrumental in the company's decision to enter the electronics and pharmaceuticals markets.

and confessed to reporters afterward: "I'm running out of gas fast."

That's not such a good sign, especially just one-third of the way into a 10-year term. But Woolard, 58, has been sloggish through an uncommonly wearying stretch. After hitting all-time highs during his early tenure as CEO, sales and earnings plunged last year. Revenues shrank \$1.85 billion, to \$8.7 billion.

Woolard's early tenure as CEO was marked by a series of successes. He led DuPont through a period of rapid growth, and he was instrumental in the company's decision to enter the electronics and pharmaceuticals markets.

on equity shrank to 1.3%, a far cry from the 10% it was when he took office.

When he took office, he aimed to crank DuPont's growth rate up to 10%.

Woolard's early tenure as CEO was marked by a series of successes. He led DuPont through a period of rapid growth, and he was instrumental in the company's decision to enter the electronics and pharmaceuticals markets.

es, some of which he had assembled as a rising DuPont star in the mid-1980s. But then recession hit. Orders from DuPont's core customers suddenly dried up, and sales plummeted across the board, from chemicals to electronics to pharmaceuticals.

SHRINKING PACK.

company. Woolard has a much different objective: getting DuPont out of the woods.

overhead and shaking up management. He has also been shrinking or spinning off the diverse businesses that he once figured would be engines of growth, such as electronics and pharmaceuticals. In their stead, DuPont will now rely much more heavily on its old mainstay

cyclical products such as fibers, chemicals and polymers—businesses Woolard has long championed. "The main changes," he says, "I'm not the least bit frustrated or angry at all. I have to be realistic."

Analysts applaud DuPont's reversal in strategy. "They are facing up to [mistakes] one by one and correcting them," says Robert S. Reitzes, a chemicals analyst at C.J. Lawrence Inc. While even the most optimistic analysts figure DuPont may bounce back to about \$2 billion in sales within a couple of years, analysts figure DuPont may bounce back to about \$2 billion in sales within a couple of years.

Woolard's early tenure as CEO was marked by a series of successes. He led DuPont through a period of rapid growth, and he was instrumental in the company's decision to enter the electronics and pharmaceuticals markets.

Still, Woolard has a lot to worry about. DuPont's stock price is down 10% from its peak in 1989. The company's earnings are down 10% from their peak in 1989. Woolard's early tenure as CEO was marked by a series of successes. He led DuPont through a period of rapid growth, and he was instrumental in the company's decision to enter the electronics and pharmaceuticals markets.

EFFICIENCY EXPERT WOOLARD:
"I'M NOT THE LEAST BIT ANGRY
OR FRUSTRATED AT ALL"



left Woolard little choice but to end on cyclical. Its electronics products, such as films used in computer circuitry, lack much industry clout. They're a drubbing in the recession. Electronics sales this year should come in at \$1.4 billion, or about 44% lower than mid-1980s projections. Woolard is turning the business way back. In May, the company said it would sell off a \$400 million-a-year electronic connectors unit. On July 31, electronics chief Charles Henry announced he will step aside. Management of the unit will move to an nearer to customers but far from Du Pont's top priorities.

BY BUSINESSES. Another much-touted with vehicle, pharmaceuticals, got tied aside last year as well. After more than 20 years of trying to make it the drug business, Du Pont put its pharmaceuticals unit into a joint venture with Merck & Co. In return for 50% equity in the venture, which is known as Du Pont Merck Pharmaceutical Co., Du Pont gets Merck's drug-development expertise as well as some cash and a few new drugs. Although sales grew 33% last year, to \$795 million, Du Pont couldn't see earnings for some time:

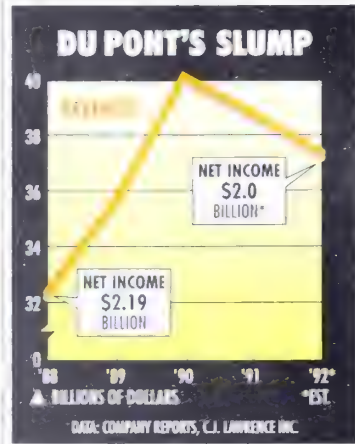
For an undisclosed period, profits must go back into the venture.

Woolard's biggest disappointment has to be on the farm. A string of acquisitions in the 1980s made Du Pont a major player in agricultural chemicals, but the payoff has been slight. The main problem these days is the fungicide Benlate, which has badly damaged some crops. Du Pont has paid out or set aside \$350 million for claims relating to Benlate. In the second quarter alone, Du Pont set aside \$134 million, helping drive down its net income for the half by 19%, to \$922 million. Without the charge, first-half profits fell 7%, matching industry results, while sales slipped 2.8%, to \$18.96 billion. Now, Du Pont is pushing for safer new biopesticides.

Happily for Woolard, his cyclical businesses have held up reasonably well. Consider the \$6 billion-a-year fibers business. The economic downturn could have brought severe pain to the unit, since it makes such consumer-sensitive products as nylon and yarn for clothes. But fiber sales slid less than half a percentage point last year, while operating profits sagged just 3%, to \$416 million. The reasons: strong fashion interest in its Lycra spandex yarn and solid overseas growth. As a former "string man"—he once ran fibers—Woolard has high hopes for the unit, expecting it to hit \$9 billion in annual sales by 1996.

Woolard's intense cost-cutting drive ought to help keep profit margins up. Since last summer, the company has cut or marked for cutting \$700 million in overhead, mainly with early retirements. Woolard vows \$1 billion will be out by yearend 1993. Employment, about 127,000, is down from 146,000 when Woolard took over. Plus, he's begun a five-year effort to add \$2 billion in profits through productivity gains and job cuts. Says Woolard: "We cannot just grow ourselves out of these costs."

A reorganization of Du Pont's top management should make it a lot easier for him to make tough cost-cutting decisions. Late in 1990, with earnings declining for the first time since 1985, Woolard did away with the decades-old executive committee—a group of past and



present top executives who guided Du Pont. He is now advised by operating executives from around the world, and he demands smarter decision-making lower down in the lean management scheme.

Eliminating the executive committee was only the beginning of Woolard's assault on bureaucracy. In the \$5.6 billion polymers unit, nearly one of every four managerial or supervisory posts has been cut since 1989. Where as many as 11 layers of management once separated Woolard from a polymers salesperson, now there are seven. "We allow people to accept responsibility and run with it," boasts Senior Vice-President Archie W. Dunham. More change is coming: Since car-makers account for a big portion of its polymers sales, Woolard is combining the automotive and polymers units under one manager on Oct. 1.

SNAPPY SWIM FINS. The move should help Du Pont's salespeople work hand-in-hand with their automotive clients—something Du Pont is pushing them to do with customers both large and small. Eight-employee Bob Evans Designs Inc. of Santa Barbara, Calif., claims sales of its pricey swim fins have spurred 37% since Du Pont sent over some marketing consultants two years ago. They suggested more focused ads and a toll-free phone number. The gain for Du Pont: more sales of its specialty chemical Terathane, which puts snap in the fin.

While bolstering many older businesses, Woolard is cutting others that don't have "a distinctive leadership position" or don't contribute to other operations. These include Du Pont's acrylics products business, a six-year-old optical-disk joint venture with Philips, and half its interest in Consolidation Coal Co. Another candidate for sell-off may be its imaging division, which makes printing gear, though Woolard stands by it for now.

To really get the lead out, some critics argue Woolard should dump his Conoco oil unit. Nailed by the oil glut, earnings are off 64%, to \$198 million, on flat first-half sales of \$7.7 billion. "Investors would rather have a choice between chemicals and nonchemicals," says Reitzes of C.J. Lawrence. Woolard argues that Conoco, "a very strong contributor" last year, isn't going anywhere: "It has only been the last seven to eight months that our oil business has been struggling." In other words, it's a cyclical business. That's something Woolard has learned to live with.

By Joseph Weber in Wilmington, Del.

WOOLARD HITS SOME MARKS AND MISSES OTHERS

GOAL	STATUS
Structure high-growth, fast-growing businesses, while strengthening old-line businesses, to produce average return on equity of 16%	Formerly fast-growing electronics business fell flat, and pharmaceuticals have been cast off into a joint venture. Return on equity overall plunged to 8.3% last year
Make all businesses competitive, trimming bureaucracy to cut costs and enhance responsiveness to customers	Now cutting \$1 billion from yearly costs, largely through early retirements. Decision-making has been decentralized, and customers are happier with less red tape
Make Du Pont, again as a major driver, an environmental leader	Despite big cuts in emissions, Du Pont's disposal of hydrochloric acid makes it the nation's No. 1 corporate polluter
Post company's global role	Offshore businesses growing mightily; management now includes managers of foreign units

DATA: DW

THOSE EMPTY SPACES WON'T FILL UP ANY TIME SOON

Around the globe, anemic office-job growth is likely to keep commercial real estate depressed

Location, location, location, goes the old saw, is all that matters in the real estate business. Pick the right location, and even an idiot can turn out to be a real estate genius. But location isn't helping much these days. Commercial real estate from London to Sydney is in the throes of a depression. And the slump, following on the heels of the unprecedented real estate boom of the 1980s, still has further to go. In many of the world's leading cities, real estate values could keep falling for years to come.

Just how did the commercial real estate mother lode of the last decade turn into the fool's gold of the 1990s? In the 1970s and '80s, growing international trade created an enormous need for more office space in the world's metropolitan centers. The demand was especially strong from financial services, which expanded rapidly, along with international bank lending and the surge in bond, equity, and foreign exchange trading. And banks were eager real estate lenders, as they grew leery of lending to Third World countries and lost many corporate customers to the securities markets. From 1980 to 1991, commercial real estate loans as a percentage of all loans grew from 10% to 17% in the U.S., from 7% to 12% in Britain, and from 11% to 17% in Japan.

IN REVERSE. But these days, the drive for office space has shifted into reverse. Brutal global competition in services is forcing U.S., European, and Japanese white-collar industries to slash costs and shed workers. Like manufacturers before them, banks, insurance companies, and law firms alike are struggling to slim down. The result: a dramatic drop-off in the need for office space, and with

it, the emptying of offices around the world. From 1980 to mid-1992 the office-vacancy rate jumped from 2.9% to 17% in Manhattan, from 2% to 20% in the City of London, and from 1.8% to over 13% in downtown Toronto. "There will be little new demand during the decade of the

from 1977 to 1987. But FIRE jobs have fallen by more than 10% since the October crash—even though the stock market is near record levels and the financial markets are bubbling. In London, FIRE employment made a round trip from 126,800 in 1981 to a peak of 158,600 in 1988 and back down to 127,800 in 1991.

In Japan, securities employment is down 10% since its 1991 peak.

SQUEEZED. And the forecast is for anemic growth in financial-service jobs even after economic recovery takes hold. For example, the growth rate in office employment in the U.S., including FIRE, lawyers, accountants, and consultants, was 4.3% annually from 1984 to 1987, calculates A. Gary Shilling, head of his own economic consulting firm. But pressure to improve productivity will keep office job growth to a 2% annual rate from 1992 to 1997, he estimates. Over the same time period, Shilling expects that cost-conscious employers will cut office space per employee from 195 sq. ft. in 1989 to 180 sq. ft. Add it all together and it could take about 10 years to bring the current national office vacancy rate of 19% down to a traditional 5%. Using a slightly different model, Bjorn

Hanson, chairman of real estate for Coopers & Lybrand, says it could take a dozen years to get the U.S. office market back to normal.

Of course, different cities and regions in the U.S. will bounce back at different times. For instance, after adjusting for local market conditions, Shilling calculates that it could take as many as 15 years to work off New York City's vacancy rate, 13 years in Los Angeles, and 10 years in Boston. And rents will ratchet lower as office leases expire. From



1990s," says David G. Shulman, head of real estate research at Salomon Brothers Inc. "And that is why real estate values are falling globally."

The trigger for the real estate bust was the international stock market crash of October, 1987, which marked the beginning of a worldwide retrenchment in financial services. The downturn accelerated as economies around the world went into a slump. In New York City, for instance, finance, insurance, and real estate employment (FIRE) rose by 32.6%

to the first half of 1992, for example, rents in Manhattan dropped from per sq. ft. to \$23, according to the mouth Group, real estate investment

sers. The picture is equally grim for London real estate, which is mired in the st depression since World War II. The most recent casualty is Olympia & York Developments Ltd.'s Canary Wharf office project in London's East London, which went into receivership in 1991. The vacancy rate in the City of London is currently 20%, and an additional 2.6 million sq. ft. of office space coming on the market over the next months, says Paul Orchard-Lisle, senior partner at property consultants Huxley & Baker. "Some of the buildings built up in the late '80s won't get occupied," he adds. Indeed, from 1991 to 1992, FIRE employment in the City of London could fall by 8%, forecasts Steven Waterman, project manager at PMA, a London-based property consulting firm. He expects other office employment, such as financial services, to sink by 9% at the same time.

London's real estate market is also in shambles. Office prices have been depressed since U.S. and Japanese financiers began cutting back their operations in the city about 18 months ago. Rental rates fell at the beginning of the year in the most remarkable downtown business addresses fell off by one-third, from \$63 per sq. ft. to \$40. It would take a three-year economic boom to sop up the city's empty office space, says Rene Casani, a top manager at Swisswiss Fonds, a real estate broker in Zurich. "But that boom isn't coming," he adds.

THE LAG. In Paris, despite a 4% vacancy rate, rental rates on new office space are down about 10% from their 1990 peak. Rents could fall by 20% more to \$16 million sq. ft. on the market over the next two years. And in Japan, To-

kyo's vacancy rate currently averages 5% citywide. However, the vacancies on buildings that were completed during the first half of this year are about 20%, and asking rents on these buildings are down by about 10%. The Japan Real Estate Economy Institute estimates that property values are now down by some 40% in Tokyo.

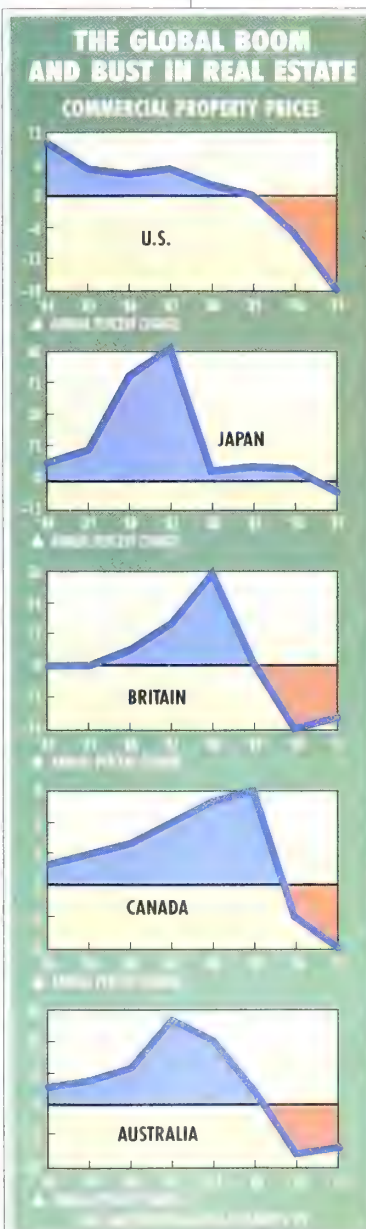
Tokyo's market is set to drop even further. Some 60 million sq. ft. of new office space is coming on stream over the next two years, but demand amounts to 20 million sq. ft., says Graeme McDonald, a senior analyst at James Capel Pacific Ltd. "With a two-year time lag between changes in the economy and any impact on commercial property, we are only in the initial stages of the downturn," says McDonald.

Naturally, not every market is in the tank. In sharp contrast to the rest of Europe, commercial real estate values in Germany are strong.

They have been largely propped up by regulatory limits on real estate lending as well as by restrictive zoning. And in Hong Kong, after plummeting some 40% since 1989, office-rental prices are heading back up again. The economy of neighboring Guangdong Province in China is growing at a 15% annual clip, and almost all the trade goes through Hong Kong.

Of course, a rebound in the economies of the industrialized world is bound to help the commercial real estate markets. Still, heat will be on European, Asian, and North American service companies to boost their productivity in a world of freer trade and more open capital markets. And that means that the glut of commercial real estate is not about to disappear any time soon.

By Christopher Farrell in New York, with Robert Neff in Tokyo, Igor Reichlin in Bonn, Richard A. Melcher in London, Charles Hoots in Paris, Pete Engardio in Hong Kong, and bureau reports



1	Exxon
2	General Motors
3	Mobil
4	Ford Motor
5	IBM
6	Texaco
7	E.I. du Pont
8	Standard Oil (Ind.)
9	Standard Oil of Cal.
10	General Electric
11	Gulf Oil
12	Atlantic Richfield
13	Shell Oil
14	Occidental Petroleum
15	U.S. Steel
16	Phillips Petroleum
17	Sun

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AN INJURED ATHLETE GOES FOR A LEGAL TOUCHDOWN

His workers' comp claim could force colleges to pay big benefits

Kent Waldrep, a Texas Christian University running back, took a pitch from the quarterback and charged toward the University of Alabama defensive line before 70,000 screaming football fans at Legion Field in Birmingham, Ala. A moment later, after a clean tackle, he fell to the turf and his neck snapped, paralyzing his entire body for life. "It was a feeling of such helplessness," he recalls. "I wanted to move my legs, but they wouldn't budge."

Another devastating blow was yet to come. Eleven months later, TCU, after paying some of his initial hospitalization costs, refused to accept further responsibility for his mounting medical bills. "They used me and discarded me," he says. Now, 18 years later, Waldrep wants to make TCU pay—and set a precedent that could shake the foundation of college sports.

CUT AND DRIED? When the Texas Workers' Compensation Commission in the next few weeks, Waldrep will argue that as a football player, he was a TCU employee who merited all the rights enjoyed by other workers. Waldrep says the retroactive compensation and lifetime stipend he could win are secondary to giving big-time college sports a stiff dose of reality. "I want to get something on the book saying college athletes are employees, which everyone knows but no one wants to admit," he explains. "The athletes work long hours and generate all that money for the universities, and then when one of them gets hurt, the schools pretend

they don't have any responsibility."

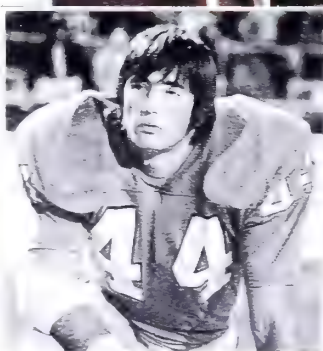
To rule in favor of Waldrep's claim, the State of Texas must say he was an employee, a sweeping contradiction of the most fundamental tenet of major college sports. The school itself takes no public position on the case. "It's for the board to decide whether he was an employee or not," says Jill E. Laster, assistant vice-chancellor at TCU. But Royce

largest university athletic programs generate upwards of \$20 million each year from ticket sales, television rights, bowl game appearances. But according to National Collegiate Athletic Association rules, student-athletes may receive only the costs associated with their education—tuition, fees, books, room and board—a pittance compared with the millions a few later make in the leagues. "Establishing a precedent that says these athletes are employees would be a good start to a fairer system," says Frank P. Hernandez, Waldrep's lawyer.

Waldrep was able to file his case because he discovered a loophole that allowed him to press his claim long after his injury. Today, a player in similar circumstances would have a much harder time suing for workers' comp. That's because last year the NCAA instituted a catastrophic-injury health insurance program that covers all varsity athletes. But those injured before 1991 are out of luck, making Waldrep's case long overdue. If he wins, the floodgates could be open to thousands of former athletes who were injured, catastrophically or otherwise.

A LONG SLOG. Catastrophic injuries are rare—in the first year of its new insurance program, the NCAA didn't receive a single claim. But what about that fullback who hurts his shoulder and never fully recovers? Waldrep's claim stands as a test case: Can you bet some enterprising lawyer will sue a university for a client's loss of potential income. "If someone with a promising future blows out his knee playing for State U. and then doesn't get a shot at the pros, the university owes him compensation," says Hernandez, who has unsuccessfully sued National Football League teams on similar grounds.

Waldrep, who now runs the Dallas-based National Paralysis Foundation, which he founded in 1979, insists he is pursuing this case to make a killing. In the first years after his injury, his parents paid for his medical treatment. In 1978 he started a Dallas aviation repair business that has left him financially secure. He knows he's now in for a years-long slog through the Texas court system. It's worth it to him, though. "I make sure big-time university athletes are recognized for what he says they truly are: big-time revenue producers."



KENT WALDREP WAS PARALYZED IN A 1974 GAME; NOW, HE WANTS MEDICAL COSTS AND A LIFETIME STIPEND FROM TEXAS CHRISTIAN

Ogden, district claims coordinator for Dallas-based Employers Casualty Co., successor to the insurer that covered TCU in the 1970s, maintains the case is cut and dried. "He was a football player, and football players are not employees," Ogden says.

Or are they? For years, players-rights activists have argued that football and basketball players are high-profile workers who should be paid. Some of the



REINVENTING AMERICA

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A large crowd of graduates in blue and black academic regalia is shown from behind, filling a large hall. The graduates are wearing black mortarboards with gold tassels and blue gowns with black stoles. They are seated in rows, looking towards the front of the hall. The lighting is bright, and the atmosphere is formal.

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EDITED BY AMY DUNKIN

Autos

HAVE MORE STYLE, WILL STILL TRAVEL ANYWHERE

Sport-utility vehicles, once built only for folks who wanted to go where the roads don't, now appeal to car buyers who seek the roominess of a minivan or station wagon but prefer practicality with panache. This year, three well-established sport-utilities are replaced by all-new and more upscale models: Chrysler's Jeep Grand Cherokee, the Isuzu Trooper, and the Mitsubishi Montero.

The off-road amenities offered by all three are a far cry from the Spartan features of the original Jeep (box). Some options, such as headlight wipers on the Trooper and Montero, are apt for vehicles built to drive through muddy gullies. But other extras, including leather interiors and sunroofs, attempt to put these vehicles in the luxury-car class.

GUZZLERS. It works—up to a point. Sure, you won't be directed to the service entrance if you drive one of these to the country club. But sport-utilities aren't cars: To handle rugged off-road driving, they sit higher and ride rougher. A tight curve or a quick dip in the road will prove that they handle differently. And they get lousy fuel economy.

When it comes to price, however, the luxury-car comparison holds. The Jeep Cherokee, predecessor to the Grand Cherokee, and the earlier versions of the Trooper and Montero started at \$14,000 or \$15,000. Now, the Isuzu and Mitsubishi models start at

around \$18,000. The Grand Cherokee starts at about \$19,000, although unlike the Trooper and Montero, the old Cherokee is still available at the old price. Loaded with extras, all three newcomers top out close to \$28,000.

■ Jeep Grand Cherokee.

With the smallest exterior dimensions of this trio, the four-door Grand Cherokee has

the least cargo space—and a full-size spare tire stored inside cuts into that. However, rear-seat legroom is spacious, and in general the interior is smartly executed. The seats are comfortable for almost any size passenger. Highway wind and road noise are minimized by sound-insulating panels covering the entire underbody. From the smooth

feel of the switches to the lack of any visible screw heads, the interior shows keen attention to detail.

The Grand Cherokee handles well on the freeway, though it's not as carlike as, say, the best of the minivan. Off-road is where it shines. Jeep offers several choices of four-wheel-drive systems. All are good, but the top-of-the-

line "Quadra-Track" full-time version is perhaps the most sophisticated one on the market. Clamber over boulder-strewn head down slopes suitable for slalom skiers. Get airborne by bounding over bumps—the Grand Cherokee handles all with aplomb. For the diehard off-road enthusiast, a special package is available with four studier gas shocks, higher spring rates, bigger tires, and extra skid plating on the transfer case for protection when you scrape the bottom.

The 4.0-liter I-6 engine carries over from the old 190-horsepower Cherokee. But this fall, Jeep adds a 220-horsepower V-8 capable of towing 6,500 pounds. For safety, the Jeep comes with antilock brakes that work in four-wheel-drive mode and the only air bag available on a sport-utility.

■ Isuzu Trooper.

Still boxy after a decade, these years, the redesigned Trooper shares none of the styling flaws of its smaller stablemate, the Rodeo. The new Trooper is longer, taller, wider, and heavier than its predecessor. You can choose between



THE ISUZU TROOPER'S REDESIGN RETAINED ITS ASYMMETRICALLY SPLIT REAR DOORS SO YOU CAN LOAD CARGO WITHOUT GRAPPLING WITH THE SPARE TIRE



JEOP'S GRAND CHEROKEE BOASTS A SMARTLY EXECUTED INTERIOR, PLUS SEVERAL CHOICES OF FOUR-WHEEL-DRIVE SYSTEMS, ALL OF THEM GOOD

uminum V-6 offering either 175 horsepower, only more than was in the prior model. But even the 190-horsepower power plant is slow to rev in the lower gears. Still, the Trooper shifts smoothly on the road and can tow up to 4,000 pounds. Rear-wheel-drive with anti-lock brakes is standard, while all-wheel-drive is optional on expensive models.

unusually stiff chassis helps to absorb bumps and rattle while keeping the driver secure in the corners. Compared to a primitive four-wheel-drive system, the Trooper's dual-purpose tires: all-terrain, snow-rated radials designed for the road.

Like the Trooper, the Trooper carries over from the old model its metrically split rear axle. When loading cargo, it's not so easy to open the rear door on the right side as having to grapple with the larger left door that is mounted outside.

Like the Trooper, the Trooper is filled with all the usual goodies, including cup holders to lower-mounted puddle lights.



THE MITSUBISHI MONTERO SHIFTS EASILY FROM TWO- TO FOUR-WHEEL DRIVE AT SPEEDS UP TO 62 MPH. A TOOL KIT AND INSPECTION LAMP ARE STANDARD

Cargo space is greater than in the Montero by several measures, even though the Mitsubishi is larger on the outside. The controls on the squarish instrument panel, however, are unnecessarily small for a vehicle meant to go bouncing over boulders.

■ Mitsubishi Montero.

The new Montero is a technician's delight. The highlight is the "Active Trac" four-wheel-drive system, which can be used at any time on any surface. Several sport-utilities allow so-called shift-on-the-fly transition from two-wheel to four-wheel drive, but they generally recommend driving

at fairly low speeds when you switch. In the Montero, you can shift easily and smoothly from one mode to the other at speeds up to 62 mph.

A pointless gimmick is the "Inclinometer," which tells you how far you're tipping to the right or left—but only when the Montero is fully stopped. A more useful option for off-roading, available only on the top versions, is a package that includes an altimeter, an electronic compass, and a temperature gauge that displays both inside and outside readings. Other good ideas: a tool kit inside the rear door and a detachable inspection

lamp in the rear that comes with a 9.5-foot extension cord and a magnetic base so you can mount it anywhere on the Montero's body.

The 151-horsepower V-6 engine seems underpowered for a vehicle that weighs up to 4,225 pounds. It can tow just 2,500 pounds. The transmission is balky when shifting from first to second gear after a cold-weather start. The driver can select from three shock-absorber settings to match ride and handling to road or off-road conditions, but the differences are less noticeable than you would

hope. More impressive are anti-lock brakes that work in all two- and four-wheel-drive modes, including both normal and the "low" range used for extra grip in slow-speed, serious off-roading.

In more prosaic areas, the Montero falls short. Its 19.5-inch step-in height is one of the highest in its class, a result of its tall, boxy design. Entrance and egress for the rear seats are tight, as is passenger legroom. And the stubby, driver's-side armrest, which barely flips down far enough from the back to support your elbow, is a major annoyance.

Jim Treece

KEEP WITH UNFANGLED LINES

When you step into Chrysler's Jeep Wrangler, one thing becomes clear: John Wayne lives. The daddy of sport-utility vehicles still embodies the spirit of the World War II all-purpose (GP) military vehicle: practicality, versatility, and simplicity. All models still provide that bouncy ride and boxy look characteristic of the original Jeep. And they've held on to the sense of fun evoked by Eugene the Jeep,

turers are striving for car-like performance in their off-road vehicles, Chrysler has kept the Jeep heritage alive with the S, Base, Sport, Sahara, and Renegade. The doors and top still come off, the fold-and-tumble optional rear seats provide ample cargo space, and the gauges, lined four in a row above the radio, are big enough to see while hurtling over the toughest terrain.

POWER NOTHING. All models still provide that bouncy ride and boxy look characteristic of the original Jeep. And they've held on to the sense of fun evoked by Eugene the Jeep,

the high-spirited character from the comic strip *Popeye* for whom they were named.

The Wrangler remains largely untouched by tech-



THE WRANGLER: BOUNCY, LOW-TECH FUN

nology. Other than optional power steering and brakes, it comes with power nothing. You even have to wrestle with bungee-like cords

clamped on the sides of the hood to open it. The sound system costs \$270 extra—and it's nothing but a barebones AM-FM stereo radio.

A five-speed manual transmission is standard on all models. The S and Base have a 2.5-liter, 123-horsepower engine, with optional four-wheel drive. The other models boast a 4-liter, 180-horsepower engine that lets you shift from two- to four-wheel drive on the fly. It is all part of the adventurous image that has allowed Jeep to hold a commanding lead in the market.

Greg Bowens

Travel

HOW TO GET YOUR AIRLINE REFUND

Wedged in among all those sweepstakes envelopes promising million-dollar payoffs to magazine buyers, a bona fide giveaway arrived in millions of mailboxes recently. The Airlines Antitrust Litigation claim forms, stemming from the proposed \$458 million settlement of a massive airline price-fixing case, guarantee discounted air travel to most flyers—with minimal hassle.

Anyone who purchased a domestic ticket on any one of nine U.S. airlines (including defunct Pan American and Midway) between Jan. 1, 1988, and June 30, 1992, to, from, or connecting through 34 major airports can file a claim. Forms were sent to 10 million flyers. If you didn't get one—or threw yours away because

you couldn't wade through the legalese—send your name and address to Airlines Antitrust Litigation, P. O. Box 267, Pennsauken, N.J. 08110-0267.

Filers should receive at least \$100 in discount coupons, based on an expected 2.7 million flyers filing claims, with higher payoffs going to people who flew more. The exact value of coupons each traveler receives will be prorated, depending on how many people file claims and how much each spent on air travel during the 54 months.

OPTIONS. Most flyers will get interchangeable coupons, valid for four years, good for up to 10% off any domestic round-trip fare on American, Continental, Delta, TWA, United, or USAir. On Northwest only, you can request coupons good for up to 20% off.

To nab the booty, you'll first have to choose among



three options. If you've only taken a few flights, fill out Short Form A. You don't need documentation, and you'll receive the minimum payout of about \$100 in coupons.

If you've flown at least five round-trips (or 10 one-way legs), consider mailing in Intermediate Form B. You'll have to detail the number of flights you took, but you won't need any proof of purchase. Your share of the settlement pot will be figured as

if you had spent a total of \$2,500.

Heavy flyers can also file Long Form C. Provide the amount spent on qualifying air travel for each six-month period since 1988, and have documents to back up the totals. Copies of receipts or bills should be kept.

NO AGENTS. You'll have to change the coupons for discounted tickets at an airline

counter or by mail. The settlement prohibits agents from selling tickets earning commissions on \$3 billion in tickets expected to be purchased with coupons.

Luckily, there's no rush to sort out the paperwork. Forms have until Feb. 15, 1993, to return claim forms. Your chances of bagging a count air coupons is far better than getting a \$10 check from Ed McMahon. Don't forget. *Jim*

Down. Week in, week out, that's the direction of money-market yields. With the average hovering around 3.1%, investors striving to eke out an extra few tenths of a point find it's often possible with an ultrashort-term bond fund. Like a money-market fund, it has high liquidity, low initial investment (usually \$1,000), check-writing, and wire transfers.

But the yields are better. Neuberger & Berman's Ultra Short Bond Fund (800 877-9700) pays about 3.4%. The Sit New Beginning Investment Reserve Fund (800 332-5580) offers 3.5%.

RATE CUSHION. Money-market funds hold securities that mature in 50 to 60 days, but ultrashort funds typically hold ones with maturities two, three, or four times longer. As interest rates slide, money-market yields drop as income from maturing securities is reinvested at lower rates.

Smart Money

BOND FUNDS THAT BEAT MONEY-MARKET MALAISE

But bond funds continue to reap rewards from their longer-maturity, higher-yield portfolios.

Managers of portfolios

with bonds that mature in about six to eight months avoid big price fluctuations that can affect even short-term funds, whose holdings mature in one to three years. For Jeff Koch at Strong Advantage Fund (800 368-3863), the objective is "to provide more yield than a money-market fund" whose share price stays at \$1 "and more price stability than a short-term fund."

A short-term bond fund's shares can move up or down two or three cents on a big swing in interest rates. But an ultrashort's shares seldom move by more than a penny. Make sure to check the prospectus for the quality of the

portfolio. For example, average bond in Investors' Advisers' IAI Reserve Fund (800 945-3863) is rated A. Also emphasizing quality, Neuberger & Berman's Doug Taylor says he's avoiding corporate bonds; 65% in Treasuries. K... more aggressive approach has the Strong fund at 80% in corporates, 20% high-interest mortgages.

ODD LOTS. Another fact to check is total return. The fund, for instance, yields only 2.9% currently but has more impressive 6% total return for the year. And Sit fund's Michael B... produced a 5% return. has half the assets in CDs and other traditional short-term instruments, in "high-rate corporate bonds issued a long time ago which now have very short maturities." Often, says... ley, such bonds are chased in odd lots that other buyers pass up. *Don L*

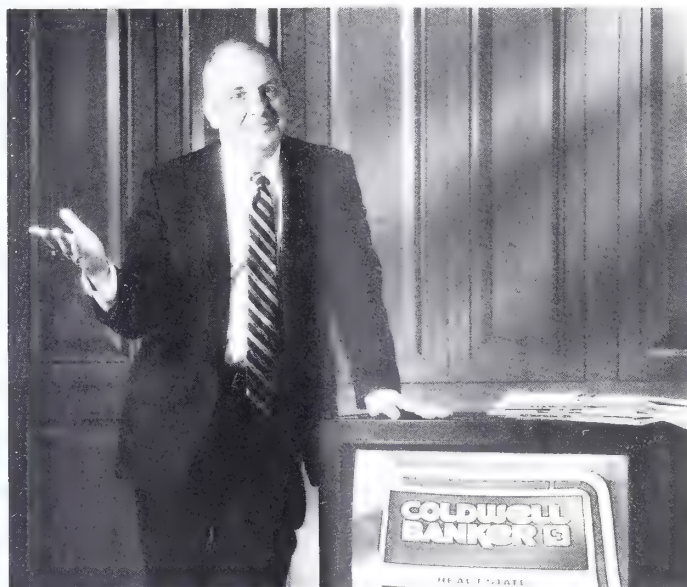
SHORT-TERM PARKING PLACES

	30-day yield	Total return for year
STRONG ADVANTAGE	6.9%	11.5%
NEUBERGER & BERMAN	3.4	6.1
ULTRA SHORT IAI RESERVE	2.9	6.0
SIT NEW BEGINNING	3.5	5.0
AVG. MONEY MARKET FUND	3.1	4.3

DATA: IBC/DONOGHUE'S, BW

"Some people in business believe that when customers stop buying, it's time to stop advertising. That certainly was the situation in real estate.

"Last year was one of the worst ever for real estate. It was also the best we ever had. You figure it out."



Chandler Barton, Chairman and CEO, Coldwell Banker Residential Group

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See, advertising gives any business the chance to inform and persuade. For Coldwell Banker, ads with honest, helpful information allowed us to be perceived as the real estate experts.

So while our competition was bemoaning the state of the economy, Coldwell Banker name awareness made its biggest jump ever. And, better yet, we had our most profitable year in our 85 year history.

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we never broke
our stride.



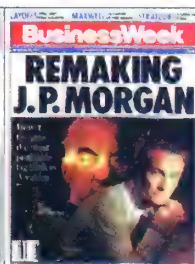
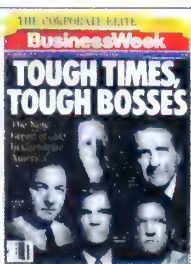
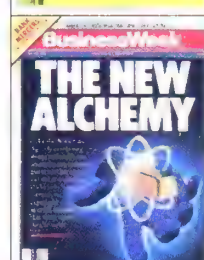


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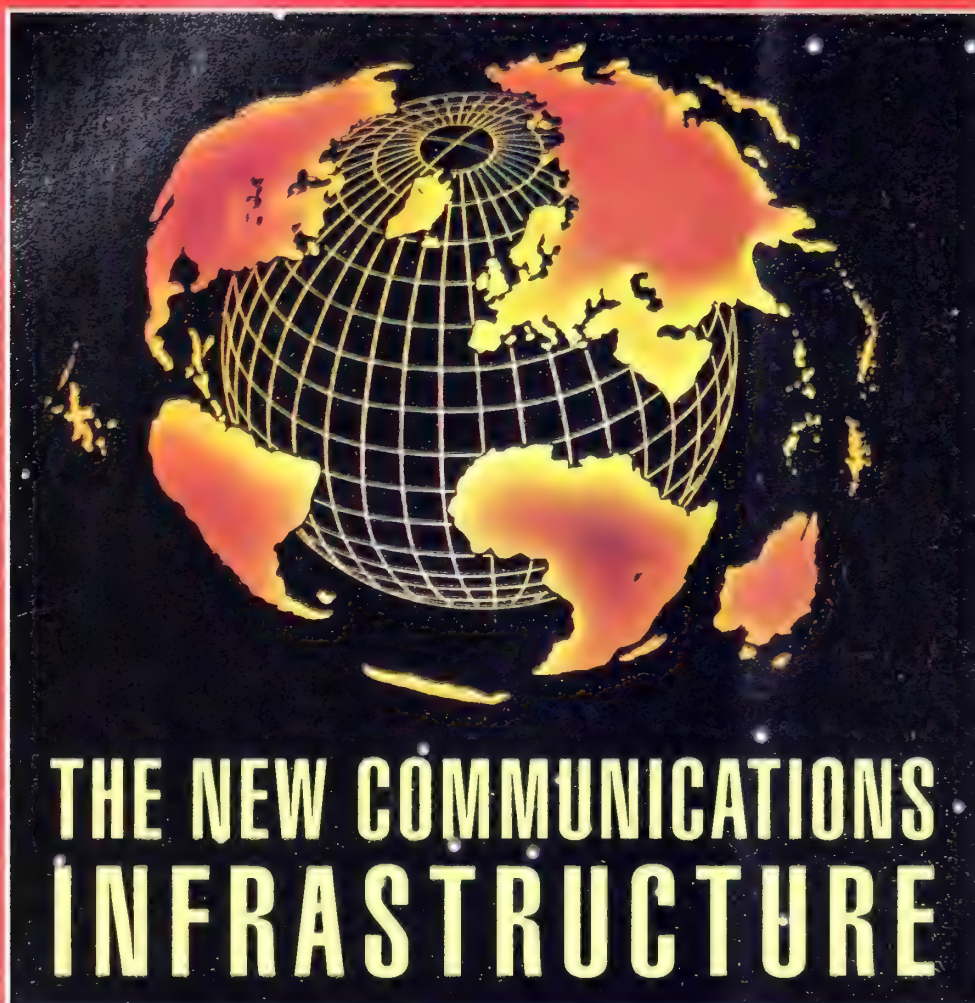
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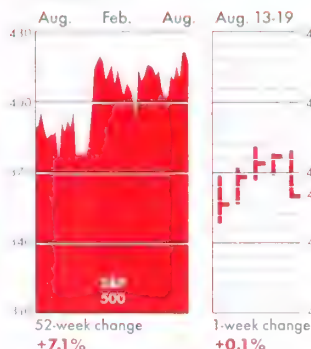
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Investment Figures of the Week

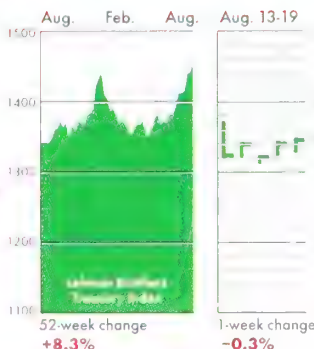
MARKET COMMENTARY

Stocks slipped this week—but marginally, despite continued volatility in Tokyo. Investors in these stocks have taken a real beating. The DFA Japanese Small Cap fund, for example, as shown on this page, has fallen in just four weeks. And the continuation of a sick stock market and a sharp decline in real estate prices could lead to further selling of Japanese stocks. Bonds, on the other hand, were strong, and Treasury bills declined in the wake of good news on the inflation front.

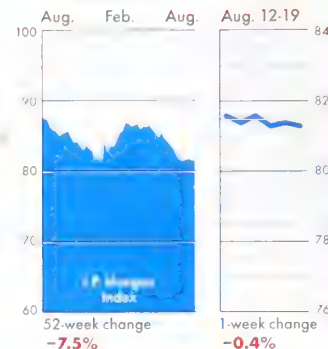
STOCKS



BONDS



THE DOLLAR



MARKET ANALYSIS

STOCKS

	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3307.1	-0.4	10.2
COMPANIES (Russell 1000)	221.2	0.1	8.1
COMPANIES (Russell 2000)	191.5	-0.4	9.5
COMPANIES (Russell 3000)	235.1	0.0	8.2

HIGH STOCKS

	Latest	% change (local currency) Week	% change (local currency) 52-week
FINANCIAL TIMES 100	2363.5	2.6	-9.2
NIKKEI INDEX	14,650.7	-0.8	-33.6
TSE COMPOSITE	3385.5	0.2	-3.6

FUNDAMENTALS

	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.15%	3.19%	5.43%
30-YEAR TREASURY BOND YIELD	7.32%	7.33%	8.07%
S&P 500 DIVIDEND YIELD	2.92%	2.94%	3.2%
S&P 500 PRICE/EARNINGS RATIO	24.5	24.5	20.0

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 26-week moving average	411.7	411.4	Positive
Stocks above 26-week moving average	47.7%	47.4%	Neutral
Speculative sentiment: Put/call ratio	0.52	0.51	Positive
Insider sentiment: Vickers sell/buy ratio	1.83	1.71	Positive

INDUSTRY GROUPS

4-WEEK LEADERS

	% change 4-week	% change 52-week
MING	10.1	19.1
EQUIPMENT AND SERVICES	9.4	-2.1
SPECIALTY RETAILERS	8.3	21.4
REBUILDING	7.9	47.3
GENERAL MERCHANDISE CHAINS	7.0	18.4

4-WEEK LAGGARDS

	% change 4-week	% change 52-week
TRUMENTATION	-14.3	9.9
LD MINING	-14.2	-7.8
INES	-7.7	-14.0
COMMUNICATIONS EQUIPMENT	-6.7	-4.8
SURE TIME	-5.7	-3.5

Strongest stock in group

	% change 4-week	% change 52-week	Price
CIRCUS CIRCUS ENTERPRISES	11.8	19.8	46 1/8
McDERMOTT INTERNATIONAL	16.8	20.8	21 3/4
WOOLWORTH	13.1	3.0	30 1/8
KAUFMAN & BROAD HOME	12.9	42.5	14 1/4
WAL-MART STORES	7.6	21.4	58 1/4

Weakest stock in group

	% change 4-week	% change 52-week	Price
HEWLETT-PACKARD	-16.1	12.3	57 1/4
NEWMONT MINING	-17.7	18.4	43 1/2
AMR	-9.5	2.5	58 5/8
NORTHERN TELECOM	-8.9	-9.2	34 5/8
HANDLEMAN	-9.8	-6.5	12 5/8

BRIDGE INFORMATION SYSTEMS INC

MUTUAL FUNDS

LEADERS

	%
4-week total return	
RILL LYNCH GROWTH FOR INVEST. B	7.2
T. AMERICA GROWTH	6.9
ICE	6.5

	%
52-week total return	
MARK	49.1
ELITY SELECT SAVINGS & LOAN	46.0
EDOM REGIONAL BANK B	40.8

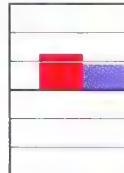
LAGGARDS

	%
4-week total return	
DFA JAPANESE SMALL COMPANY	-22.3
CAPSTONE NIKKO JAPAN	-17.6
UNITED SERVICES GOLD SHARES	-15.2

	%
52-week total return	
LEXINGTON STRATEGIC INVESTMENTS	-47.7
UNITED SERVICES GOLD SHARES	41.1
DFA JAPANESE SMALL COMPANY	-34.7

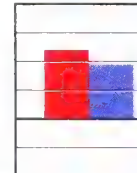
S&P 500

4-week total return



Average fund

52-week total return



MORNINGSTAR INC

RELATIVE PORTFOLIOS

amounts
sent the present
of \$10,000
ed one year ago
h portfolio

Treasury bonds
\$11,815
-0.73%

U. S. stocks
\$11,533
+0.58%

Money market fund
\$10,361
+0.06%

Foreign stocks
\$9,833
+0.01%

Gold
\$9,446
-3.59%

stages indicate
y total returns

DATA RESOURCES INC

on this page are as of market close Wednesday, August 19, 1992, unless otherwise indicated. Groups include S&P 500 companies only, performance and share prices are as of market close.

August 18. Mutual fund returns are as of August 14. Relative portfolios are valued as of August 18. A more detailed explanation of this page is available on request.

SILICON VALLEY IS STILL ON TOP OF THE WORLD

Not long ago, Japan's giant electronics companies seemed to have everything they needed to carve off a mikado-size chunk of the U.S. computer market. They dominated the production of key components, including memory chips and the flat-panel displays now used in laptops. They had low-cost capital and rich conglomerates behind them to fund an effort to do unto computers what they had already done to autos, chips, and consumer electronics.

But this time, a funny thing happened on the way to Japan's domination: competition (page 64). Despite its world-leading position, the U.S. computer industry never slowed to the elephantine pace that made autos, home electronics, and other industries such easy targets when first confronted by serious Japanese competition. Selling computers has become a tougher business, but U.S.-based computer makers have become far tougher competitors.

The rate of technical innovation has accelerated, challenging even such giants as IBM to maintain the pace. And U.S. computer makers are keeping up—slashing overhead, speeding up product cycles, and making sure they're tuned in to their customers. Meanwhile, Japan's computer makers, managing their campaign by remote control from 4,500 miles away, have so far failed to follow all the twists and turns—even in laptops, a market they owned until recently.

But Silicon Valley can't relax. The manufacturing skills and dominance in key component technologies that made the Japanese threat in computers so real a few years ago remain largely intact. And as personal computers mutate into tiny handheld devices powered by a few chips, Japan's underlying strengths may give it an even greater potential advantage. Long-term, the Japanese challenge in computers has not been repulsed. But the competition-driven U.S. industry has shown that it has a solid chance to stay healthy.

TOKYO: HIDDEN PROBLEMS GET WORSE

Japan's stock market is down 60% from its peak in December, 1989, and by some estimates, commercial real estate values there have dropped by \$400 billion or more. This deep-sixing of Japanese asset values shows few signs of reaching bottom soon. And a continued plunge in Japanese markets could have serious economic repercussions for an already fragile global economy.

So the latest actions of the Japanese government to stem the decline are being closely watched from New York to Frankfurt—and they are disappointing. True, Finance Minister Tsutomu Hata conceded for the first time on Aug. 18 that the Japanese financial system faces serious problems, and he proposed loosening certain regulations on its hard-pressed banks. But his reform package is much too timid in scope—and could even make the situation worse. The Finance Min-

istry wants to let banks delay disclosing the losses on the huge stock portfolios until March, 1993, in the hope that the stock market will recover between now and then.

But investors are more likely to be frightened than reassured by officially sanctioned concealment of the facts—and justifiably so. Without accurate information, investors can only assume that Japanese banks have absorbed even more staggering losses than anyone thought. Anticipating the worst, investors may keep pulling out of the market, driving it ever lower in a downward spiral that could drag down markets around the world. The past 30 years have taught that markets work best when information is available to everyone, and panic is most likely when uncertainty is high.

So rather than trying to sweep problems under the rug, tinkering with regulations and disclosure dates, the Japanese government would be well-advised to take bold and credible action. Get the information out that the markets need. Aggressively lower interest rates to arrest the downward momentum of the asset deflation. And prime the fiscal pump to ensure that the Japanese economy does not slip into a classic recession. Further caution carries excessive risk, not just for Japan but for the rest of the world.

TALK THE DOLLAR UP—NOT DOWN

Treasury Secretary Nicholas F. Brady has never made any secret of his disregard for the dollar's strength in the foreign exchange markets. A falling dollar makes U.S. goods cheaper abroad, and as Brady sees it, the resulting boost to America's exports provides a welcome lift in growth. So when the dollar came under attack in the foreign exchange markets in early July, the Treasury Secretary, true to form, went on TV to say he wasn't concerned.

But the world economy is now at a point at which Brady needs to care about the dollar's strength. The greenback has fallen 2.7% against the German mark since early July, and the Federal Reserve and other central banks have spent billions to keep it from falling further.

The central bankers recognize what Brady ignores: the costs of a falling dollar now exceed the benefits. A weak dollar drives foreigners from the markets where the U.S. Treasury must sell its trillions in notes and bonds. It brings inflation. It undermines the dollar's status as the world's leading reserve currency, damaging America in a world where many other commodities are priced in dollars and hence immune from currency fluctuations. And in free-fall, a plunging dollar could force the Fed to push up interest rates—with disastrous consequences for the recovery that Brady and President Bush are so desperately seeking.

It's time for Brady to recognize the dangers of his dollar-damaging talk. The not-so-almighty dollar's fundamentals aren't strong right now: Short-term interest rates are more attractive in Europe than in the U.S., and hopes of post-election fiscal sobriety in Washington grow dimmer by the day. With such conditions, the U.S. can't afford to let the dollar sink unimpeded, never mind talk it down. The buck needs a booster in the U.S. Treasury—even in an election year.

